

Department for Work and Pensions

Research Report No 251

Low-income homeowners in Britain: descriptive analysis

Pamela Meadows and Daniel Rogger

A report of research carried out by the National Institute of Economic and Social Research on behalf of the Department for Work and Pensions

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Abbreviations

BHPS	British Household Panel Study
EFS	Expenditure and Food Survey
EHCS	English House Condition Survey
FACS	Families and Children Study
FRS	Family Resources Survey
SEH	Survey of English Housing

Glossary

Low-income	Unless otherwise stated in the text, we use this term for households or families whose equivalised household income before housing costs is below 60 per cent of the median for all households.
Higher-income	Households/families with equivalised household incomes above the low-income threshold.
Bottom quintile	Households/families whose income falls into the bottom 20 per cent of all households/families.
Equivalised income	Adjustment of household income to take account of household size and composition.
Family/families	Households containing parents/carers and their dependent children.
Homeowners	Households who own the homes they live in, either outright ownership or buying with the help of a mortgage.
Tenants	Households that are not homeowners; the term includes the small number of households that are squatters or living rent-free as well as tenants who pay rent.
Social tenants	Tenants of local authorities or housing associations.
Housing costs	Rent, service charges and council tax for tenants, mortgage interest, service charges and council tax for homeowners.

Summary

This study aimed to establish the characteristics of low-income homeowners and their circumstances. It also aimed to establish whether there was sufficient data to analyse, in more depth, the circumstances under which people become low-income homeowners or leave low-income home ownership. It comprised secondary analysis of a range of datasets, including the Family Resources Survey (2002/03 and 1995/96), the British Household Panel Study (1991-2002), the Families and Children Study (1999 and 2002), the Survey of English Housing (2002/03) and the English House Condition Survey (2001).

Our preliminary secondary analysis of low-income home ownership has found:

- With some variation by data source and definition of low income, our analysis confirms the headline finding of Burrows and Wilcox (2000) that around half the poor are homeowners (Section 6.1).
- Both the Family Resources Survey (FRS) 2002/03 and the Survey of English Housing 2002/03 found that seven out of ten low-income homeowners owned their homes outright. However, the British Household Panel Study (BHPS) 2002 suggested a roughly even split between outright owners and households with mortgages.
- Part of the reason for the large proportion of outright owners is due to the fact that six out of ten low-income homeowner households were headed by someone over sixty (Section 6.3). However, even among younger age groups, low-income homeowners were less likely to have mortgages than higher-income homeowners (Section 7.3).
- The composition of low-income homeowners differed markedly from the composition of low-income tenants. For example, a quarter of low-income tenant households were headed by lone parents without paid employment, while this group was less than five per cent of low-income homeowner households (Section 6.3)

- Although almost seven out of every ten households own their homes, while three out of ten are tenants, among low-income families with children these proportions were reversed. Seven out of ten low-income families with children were tenants and only 30 per cent were homeowners (Section 6.1).
- Over half of all low-income tenant households were families with children, whereas between one in four and one in five (depending on the data source and definition of income) low-income homeowner households had children (Section 6.2).
- Almost all low-income homeowners owned their homes before they experienced a fall in income. The number of low-income tenant households who move into home ownership is extremely small (Section 8.2).
- Around half of all low-income homeowner households in one year are no longer low-income homeowner households the following year. Almost all experience an increase in income. Only a small minority become tenants (Section 8.1).
- Half of all low-income homeowner households have savings. Among low-income homeowner families, two-thirds have savings and a third save regularly (Section 7.2).
- Two-thirds of low-income homeowner households have cars. This compares with the average of 74 per cent for all households and only 30 per cent of low-income tenant households. Ownership of other consumer durables followed a similar pattern. Low-income home owners are only a little less likely than homeowners with marginally higher incomes to own a wide range of durable items, and are generally far more likely to own such items than low-income tenants (Section 7.11).
- A quarter of low-income homeowners with mortgages said that they had difficulty in keeping up the payments. A similar proportion had repayments that represented more than 39 per cent of household income. This level is unlikely to be sustainable for any extended period of time. A small minority had mortgage payments that were greater than their incomes. However, 97 per cent of low-income homeowners with mortgages were up to date with their mortgage payments (Section 7.3).
- Six out of ten low-income homeowners with mortgages did not have mortgage protection or similar insurance covering sickness or unemployment. However, most low-income homeowners with arrears (albeit based on a small sample) had fallen into arrears for reasons which are not insurable, including a partner leaving home or a fall in earnings (Section 7.3).
- Low-income homeowners tended to live in smaller and older homes than higher income homeowners. They also tended to have lived in their homes for longer. Both the age of home and the duration of ownership reflect the older age profile of low-income homeowners (Section 7.6).

- Around two-thirds of low-income homeowners lived in homes below Council Tax Band D, compared with just over half (55 per cent) of all homeowners. However, around 12 per cent of low-income homeowners lived in larger, more expensive houses (Council Tax Band E and above). This group is evenly split between homeowners over 60 and those under 60 (Section 7.2). A quarter of low-income homeowners had traded down from more expensive accommodation (Section 7.9).
- The most desired, but unaffordable, items for low-income homeowner families were dishwashers and holidays (Section 7.11).
- Low-income homeowners' homes were more than three times as likely to be unfit than higher-income homeowners' homes. Seven per cent were unfit compared with only two per cent of higher income homeowners' homes. The most common source of unfitness was food preparation (2.9 per cent of low-income homeowners' homes) and general disrepair (2.7 per cent). Unfitness was concentrated among younger low-income homeowners. One in ten had unfit homes, compared with only one in twenty low-income homeowners aged 60 or more (Section 7.7).
- Although the move into low-income home ownership is associated with a change of circumstances (particularly losing a job or becoming ill), the overwhelming majority of people who lose their jobs or who become ill do not experience a fall in income of such a size that they move into the bottom quintile. The result is that the adverse transitions that we have been able to identify as being associated with a move into low-income home ownership are, nevertheless, poor predictors (Section 8.1).
- Even among those who experience a combination of disadvantageous events, a majority do not become low-income homeowners (Section 8.1).
- Each year, according to the BHPS, around six per cent of higher-income¹ homeowners experience a drop in income sufficient to move them into the low-income homeowner group. Among families in the FACS, around three per cent of better off homeowners become poor homeowners, while less than 0.3 per cent of them become low-income tenants (Section 8.1).

¹ Throughout this report, we use the term 'higher-income' for all those who are not included in 'lower-income' groups. Typically 'higher-income' groups are around 80 per cent of the population. The term, therefore, includes some whose incomes are not much larger than those who are below the threshold.

1 Background to the study

Current benefit policy regarding housing is aimed principally at assisting those in social or private rented accommodation. However, approximately just over half those on low incomes are homeowners, who either have a mortgage or own their own home outright. Moreover, the majority of these households are heavily dependent on state benefits for their income (Burrows & Wilcox, 2000).

The 2001/02 Households Below Average Income (HBAI) statistics reveal that, on a Before Housing Costs measure, just under 15 per cent of people in owner occupying households have income below the 60 per cent of median income threshold which is the measure used for the Government's anti-poverty strategy. This compares with just under 30 per cent of people who live in rented accommodation. Yet because there are many more people in homeowner households than in rented accommodation (40 million compared with 16 million), over half of those with low income are homeowners.

Thus, although the incidence of low income is much lower among homeowners than it is among tenants, it is a small proportion of a large base. In Britain as a whole, nearly seven out of ten (69 per cent) households own their homes (ONS 2004), and, in England, 71 per cent do. This large population of homeowners means that even a small proportion can result in large numbers of people.

In fact, the issue of low-income homeowners is not a new phenomenon. Karn did some analysis of their circumstances in the 1970s (Karn, 1977). Long before that, Joseph Rowntree's 1902 study of poverty in York made reference to the 'interesting condition of house-owners' (Rowntree 1902, p.166). However, the work of Burrows and Wilcox (2000) using the Family Resources Survey for 1997/98 was instrumental in pointing out the current scale of the issue.

Subsequent work by Burrows (Burrows 2002) based on the Poverty and Social Exclusion Survey of 2000, identified some of the socio-demographic characteristics of the low-income homeowner population in more detail. Burrows found that amongst homeowners, those in poverty were most likely to be living in households with no workers, lone parents, households headed by someone from a manual social class background, younger mortgagees or older outright homeowners. Although the population of low-income homeowners seems to partially reflect the demographic diversity of the poor, there is a tendency for homeowners vulnerable to income reductions, to be over-represented. Such groups include retired people, lone parents, and those who have experienced divorce or separation.

2 Objectives of the research

The state of knowledge about the circumstances of low-income homeowners is limited. In particular, information about whether people become homeowners while on a low income, or experience a fall in income while they are homeowners, was a central gap. The main purpose of this stage of the research was, therefore, to undertake a preliminary exploratory stocktaking. The research, therefore, had four components:

- Describe the characteristics of the low-income homeowner population, focusing on lone parents, couple families with dependent children and heads of household aged 60 or more.
- Describe the extent to which the characteristics of the low-income homeowner population are fixed or vary over time by looking at trends.
- Describe the characteristics and circumstances of homeowner families/households who leave and enter low income and examine how far patterns of home ownership change among low-income groups.
- Produce a feasibility study which will examine the potential for multivariate analysis of the dynamics of how people come to be in low-income home ownership, as well as how they leave.

3 What constitutes low income?

A central issue for our research is that, as Burrows (2002) states, *'the nature of poverty among homeowners...is significantly affected by the way in which poverty is conceptualised and measured.'*

The range of definitions is diverse, and the arguments for and against each are part of a long-standing and unresolved debate. There are three broad approaches:

- a fixed real-income approach;
- the relative income approach, as adopted by the Government's anti-poverty strategy;
- a social exclusion approach, looking at access to goods and services, and at integration into the wider life of the community.

More recently, an approach that brings together the relative income and social exclusion approach has been tried. Within each of these broad approaches there are often further choices of measures.

The Government's Opportunity for All strategy is targeted at children, people of working age and older people. A range of low-income indicators is tracked for each group: a fixed real income measure, a range of relative low-income measures, including 50 per cent, 60 per cent and 70 per cent of median income, both before and after, housing costs, and persistent low income (occurring in three out of four years).²

There is extensive literature on the measurement of poverty, which we are not proposing to review here in any detail. However, the literature is relevant to the choice of measures we have used in our data analysis.

² Details of all the indicators can be found at <http://www.dwp.gov.uk/ofa/indicators/complete.asp>

A fixed income threshold reflects the idea of measuring, in some sense, a fixed standard of living. As countries become richer, the proportion of the population living below this standard is likely to decline. It, therefore, captures growing prosperity, and also where a country as a whole experiences a decline in living standards (Sen 1983). However, the chief criticism of absolute measures is that the nature of poverty is so dependent on its social context, no threshold travels well either over time or across countries (Callan and Noble (1991) has a good discussion of this). Moreover, a fixed real income may not, in reality, produce a fixed standard of living, because the nature of the goods and services available to those on low incomes might change. For example, access to public transport is less good than it used to be in many areas, and this means that the money previously spent on bus fares to work will no longer buy travel to that location, either by private or public transport. Similarly, since the advent of near-universal central heating, it is more difficult to save money by only heating one or two rooms of a house.

This problem is addressed by the construction of poverty thresholds that are some proportion of the mean or median income of the whole population, or which measure the relative income of the least well-off members of the population (typically the lowest decile or quintile). Measures of this kind are widely used in the UK poverty literature, for example, Palmer *et al.* (2003). As Callan and Noble (1991) argue, *'The general rationale is that those falling more than a certain 'distance' below the average or normal income level in the society are unlikely to be able to participate fully in the life of the community.'* However, the main difficulty with such measures is that the cut-off point is essentially arbitrary. As a consequence, groups in the population who are close to the cut-off point can apparently move into and out of poverty from year to year.

The third broad approach is to view the poverty line as deriving from prevailing social standards. Consensual indicators gauge which items and activities are deemed by society to be necessities. This then allows researchers to identify as 'poor' those who lack particular necessities, or those who lack a certain number of necessities (since sometimes non-consumption of an item such as television, is a matter of choice rather than being unable to afford it).

Gordon *et al.*'s groundbreaking study, *Poverty and Social Exclusion in Britain* (2000) followed in a long tradition of consensual surveys, but explored further by expanding the study to include broader measures of social exclusion. This opened up the definition of poverty to encompass labour market exclusion, service exclusion, and exclusion from social relations, as well as exclusion from adequate income or resources. The causes of social exclusion they identified ranged from physical barriers, to lack of availability of necessary services and information poverty. The study used many of the tools discussed above, but aggregated and built upon them. Using the strengths of one to compensate for the weaknesses of another, the study assembled what it claims is 'the most comprehensive and scientifically rigorous survey of this type ever undertaken.'

Some research uses more than one definition in order to test the sensitivity of the analysis against the definition of poverty used. Jarvis and Jenkins (1997) use an income threshold fixed in real income terms, and the poorest quintile of the population. Burrows (2002) focused on three contrasting interpretations of poverty (bottom quintile, necessity deprivation and 'core' poverty).

The previous literature on the characteristics and dynamics of low-income homeowners suggests that the group is particularly sensitive to the definition of poverty used. Thus, we have endeavoured to use a range of poverty indicators and differing definitions to gain a rounded understanding of the context in which this group lives.

One other issue related to the measurement of income is whether to measure income before or after housing costs are taken into account. Income after housing costs essentially aims to measure disposable income available for heating, fuel, food and discretionary spending. Income before housing costs measures original income. There are two key differences between homeowners and other housing tenure groups which are relevant to this decision. The first is the extent to which they receive additional income to cover their housing costs, and the second is what is included in the definition of housing costs. For tenants, housing costs include rent, service charges and Council Tax. For homeowners, housing costs include mortgage interest (but not capital repayments), buildings insurance and Council Tax. The definition of housing costs for homeowners does not include maintenance and repair costs, although for tenants an amount to cover this is included in rent or service charges. As a consequence, neither measure is ideal. Income after housing costs overstates the income of homeowners as compared with tenants by excluding repair and maintenance costs for the former but not the latter. Income before housing costs does not take account of the fact that tenants, generally, have higher housing costs than homeowners, so that the same original income does not produce the same residual income. Burrows and Wilcox (2000) report that homeowner households in the lowest decile, spent £3.70 per week more on repairs, maintenance and decoration than tenant households in the same income group. The costs of heating and lighting are not included in housing costs for either group, although these too are integral to the occupation of dwellings.

Because of these anomalies, throughout this study we have generally concentrated on income before housing costs. In other words, in order to compare the underlying circumstances of tenants and homeowners we take the whole of their income, recognising that both groups need to meet housing costs as well as other living costs out of it, but recognising also that both groups have some choice as to the level of housing costs they choose to incur. In some places, we have looked at income after housing costs, but it does not affect the overall broad patterns that we have found using the other measure. In fact the characteristics of low-income homeowners are very similar under both measures.

The second key decision relates to whose income to take into account. As housing costs are shared between members of a household, it is the income of the household rather than that of an individual which is particularly relevant for this study. Where possible we have taken equivalised household income as our measure of income, using the standard McClements equivalence scales as used in the Department for Work and Pensions (DWP) Households Below Average Income series. The purpose of equivalisation is to take into account differences in household size and composition when comparing the income of different households. We recognise that there are debates around the appropriate size of the equivalisation factors, particularly those for young children (see for example Middleton *et al.* 1997), but that is beyond the scope of this study.

For practical purposes, given that we have looked at a range of datasets, we have chosen to concentrate on relative income, where we have used two measures (the lowest quintile and 60 per cent of the median) and on the social standards approach.

4 Data sources

Our research was based on secondary analysis of a range of different data sources which included information on income, tenure, and socio-demographic characteristics. Each has its own strengths and weaknesses, and none provides a complete picture. However, for the most part they reveal a consistent pattern of findings, which increases the confidence in our results. We have taken 2002 as our base year as far as possible, and for the cross-sectional findings have used the datasets available to us which either cover 2002 or one year either side.

4.1 The Families and Children Study

The Families and Children Study (FACS) is sponsored by the DWP and is a longitudinal survey of families with dependent children in Great Britain. The first wave was in 1999, and the latest wave used in this analysis was in 2002 (Wave 4). There are over 7,500 families in the 2002 dataset, with income data available for around 6,300. Over all four waves, some 10,000 families have taken part in the FACS. Unlike the other data sources, this survey does not include older people or adults without children.

The issues covered in the FACS include tenure, family structure, employment, and income. They also include questions about debt and savings, and the state of repair of the home. The survey also contains information about consensual indicators of poverty and social exclusion. Families were asked 34 questions about the affordability of different goods and services. These include food items such as fresh fruit, new clothing and shoes for family members, consumer durables, and leisure activities such as outings.

The 2002 FACS, which we have used in our cross-sectional work, was representative of all families in Britain. However, the 1999 FACS, which we used for comparison over time, was concentrated on low-income families. Thus, our comparison over time of families will be representative of what happens to low-income families, but will not necessarily be an accurate representation of higher-income families who become low-income homeowners.

4.2 The Family Resources Survey

The Family Resources Survey (FRS) is a nationally representative survey of households. Since 2002, it has covered the whole of the United Kingdom. (Previously, it had excluded Northern Ireland and the Scottish Highlands and Islands). There are approximately 28,000 households in the 2002/03 survey, and 26,435 in the 1995/96 survey, which we used for comparison over time. We had originally intended to use the 1993/94 survey to allow a longer comparison period, but we found that some key variables were not collected at this point, so 1995/96 offers the best available baseline.

The FRS collects detailed information about income. It also collects information about tenure, household structure, savings and employment. It has the largest sample of all the data sources we have used and also covers the whole of the United Kingdom. For these reasons it is likely to be more reliable than the other sources, and we have treated the FRS as the benchmark. We have used the 2002/03 survey for our cross-sectional work.

4.3 Survey of English Housing

The Survey of English Housing (SEH) is an annual survey of around 15,000 households in England only, sponsored by the Office of the Deputy Prime Minister. The questions are extensively harmonised with other national surveys, which is advantageous for comparison with the FRS and other surveys. The most recent survey is for 2002/03 and this is the one we have used for our cross-sectional work.

The SEH collects information about the household similar to that in the FRS, but collects more detailed information about the housing circumstances, including length of residence, previous residence, mortgages, mortgage protection and similar insurance, and how a household came into home ownership. It also includes details about the previous ownership of the property and when it was bought, which makes it possible to identify those who have bought their homes from a local authority or housing association.

4.4 Expenditure and Food Survey

The Expenditure and Food Survey (EFS) is an annual sample of 7,500 households drawn from the whole population. It provides a detailed breakdown of household expenditure patterns. We analysed the 2001/02 survey. Its main value is in providing information about ownership of household items and consumption patterns.

4.5 British Household Panel Study

There have been twelve waves of the British Household Panel Study (BHPS) since 1991. There are 10,000 households which have taken part in the survey in at least one wave, while around 7,000 responded at Wave 12 in 2002.

The BHPS tracks both the households included in the initial wave, and the subsequent households of individuals who have moved out of those households and formed new households, for example, children leaving home or relationship breakdown. A wide range of topics are covered by the survey (some each year, others at intervals). At this stage in our study, the main purpose of looking at the BHPS is to assess the potential for more in-depth analysis of transitions into, and out of, low-income home ownership, which if feasible, would form a second stage of this study. We have, therefore, restricted our analyses to the issues of age, tenure and income, as our main purpose is to identify the number of households that either become low-income homeowner households or leave low-income home ownership between one wave and another. Our analysis of this valuable and complex data has (and was always intended to be) very limited. If a second stage of this work is commissioned providing more complex analysis of the dynamics of the transitions into and out of low-income home ownership, the BHPS would provide our main data source.

4.6 English House Condition Survey

The English House Condition Survey (EHCS) is sponsored by the Office of the Deputy Prime Minister and consists of a set of interrelated data based on component surveys carried out on the same sample of dwellings in England. The two main components used in this report are an interview survey of households living in the sampled dwellings and a physical survey of the sampled dwellings where permission/access was available. This survey previously took place every five years, but moved to a continuous basis in 2004. The most recent data available relates to 2001. In that year, there were some 16,500 households for which both household information (including income) and physical condition information were available.

The particular value of this survey is that it includes detailed information about the state of repair of a dwelling, which in turn can be related to the circumstances of the household.

4.7 Poverty and Social Exclusion Survey

The Poverty and Social Exclusion (PSE) Survey of Britain was carried out in 1999 by Social Survey Division of the Office for National Statistics and was funded by the Joseph Rowntree Foundation. The sample was drawn from respondents to the 1998/99 General Household Survey, with lower-income households having a higher probability of inclusion than higher-income households. One-thousand-five-hundred-and-thirty-four households took part (a response rate of 63 per cent). A particular purpose of the survey was the measurement of consensual poverty indicators.

4.8 General issues related to data sources

We have found in the course of our analysis some inconsistencies between the different data sources. Where these are significant, we draw attention to them explicitly. One central difficulty, as we discuss in Chapter 6, is that the composition of the low-income homeowner population is sensitive to the exact definition of low income used. At the risk of over-generalisation, the key dimension of the problem is that for most definitions of low income, quite a large number of people are close to the cut-off point, with many families with children often being just above the threshold, and many older retired people just below it. Thus, a slightly higher threshold will bring in more families and a lower one will ensure that older people are the dominant group. Some of the sensitivity of the make up of the low-income homeowner population is illustrated in Table 6.2.

We have chosen to use the FRS as our main benchmark in defining the population of low-income homeowners. The reason for this is that one of its key purposes is the compilation of the statistics on Households Below Average Income (DWP 2004), which is the source the Government uses to track its anti-poverty targets. This means that the measurement of income and general financial circumstances is more detailed and subject to more checks than it is in the other data sources. It also has a larger sample than most of the other sources and covers the whole of the UK. Moreover, it also means that the main focus of our work is aiming to be consistent with the HBAI.

The other data sources we have analysed are generally better at measuring other aspects, such as state of repair, access to goods and services and changes in income and tenure. But it is important to recognise that they are doing this against a background where the low-income homeowner population may be more difficult to identify accurately because their measurement of income is less precise, and their sample sizes are smaller, or cover only part of the UK.

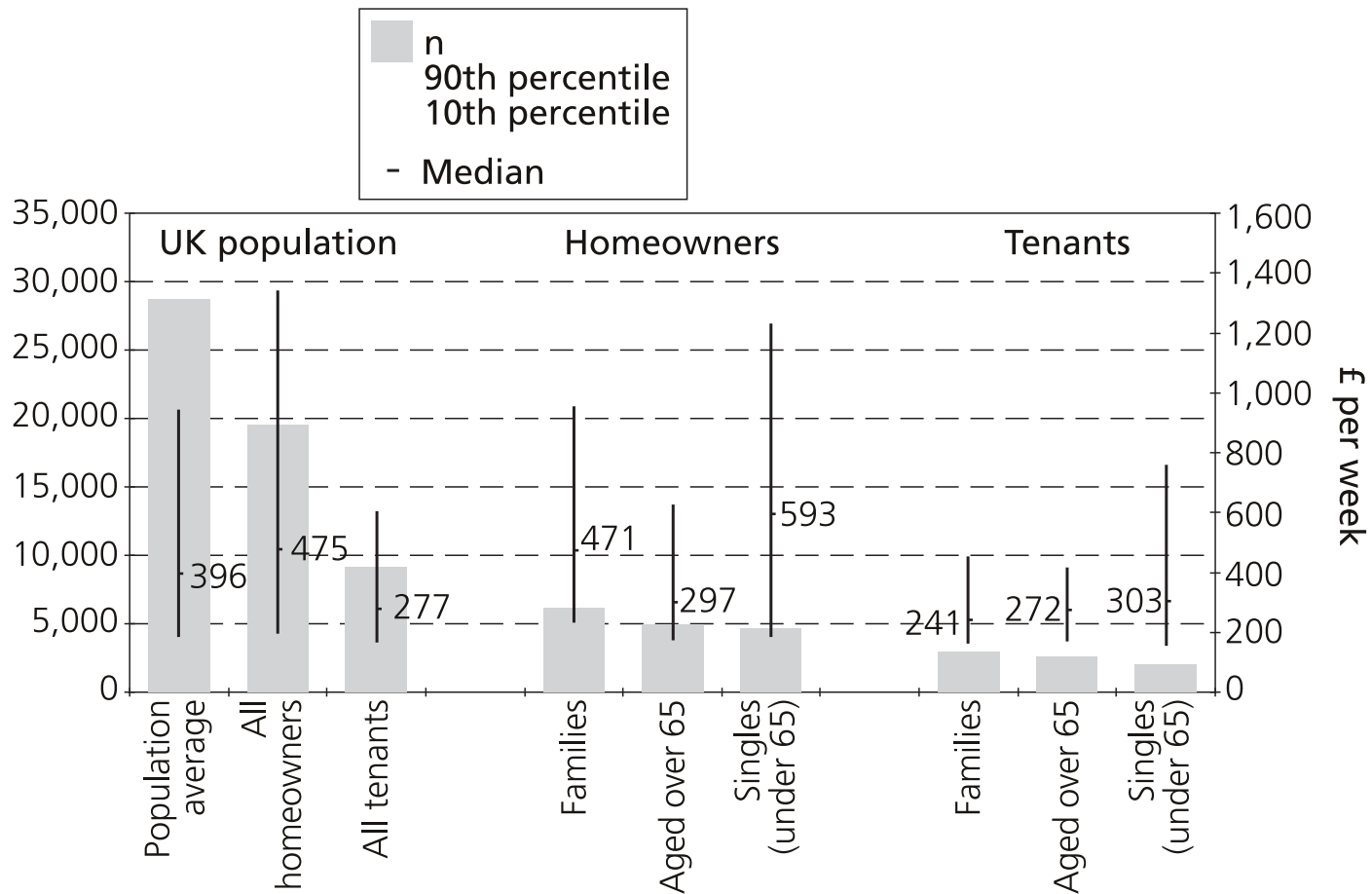
5 The income ranges for different household types

In order to understand more fully the position of low-income groups in both the homeowner and the tenant population, Figure 5.1, which is based on the 2002/03 FRS shows the income ranges before housing costs (lowest decile, median and top decile) of some of the key groups of households who are well represented among the low-income homeowner population: families with children, single people under 65 and households headed by someone aged 65 or more.

For homeowners, the range is much larger than it is for tenants. The bottom decile for homeowners (£196) is higher than that for tenants (£167). The median for homeowners (£475) is also higher than the median for tenants (£396), but the top decile for homeowners (£1,341) is more than double the top decile for tenants (£606).

Among homeowners, the largest range is to be found for single people under the age of 65, whereas for people over 65, the range is relatively narrow (£172 at the lowest decile to £627 at the highest). Among tenants the ranges for all population groups are much narrower, and the differences between the groups are much smaller. The medians for tenants in all demographic groups range from just over £240 to just over £300 a week, whereas the medians for homeowners range from just under £300 to almost £600. For families with children the median for homeowners is £471, whereas that for tenants is almost half that level (£241). The lowest decile for homeowner families is £231 while that for tenant families is £163. The highest decile for homeowner families is £954, whereas that for tenant families is £454. For people over 65 the median for homeowners (£297) is above that for tenants (£272) but the difference is small compared with other groups. The lowest decile for homeowners over 65 is £172, while that for tenants in the same age group is almost identical at £170. The top decile for homeowners over 65 is £627 while that for tenants in the same age group is £415.

Figure 5.1 Income ranges for groups in the population (household equivalised income before housing costs)



Source: Family Resources Survey 2002/03

6 Who are the low-income homeowners?

The exact composition of the population of low-income homeowners varies according to the source of the data and the definition of low income used. The main reason for this variation is that many low-income homeowners have incomes which are very close to (both above and below) the threshold at which poverty is defined. Thus, the composition of the group is particularly sensitive to the accurate measurement of income, and to the use of alternative measures of income. Those who are slightly above the threshold in one source can fall below it in another and vice versa (this is discussed in more detail in Section 6.2).

6.1 Half the poor?

The starting point for this study was the finding of Burrows and Wilcox (2000) that half the poor are homeowners. Burrows and Wilcox defined as poor those with incomes in the bottom decile and the bottom quintile before housing costs and those with incomes below Income Support level but not claiming Income Support. With some variation by data source and definition of low income, our analysis broadly confirms this. Table 6.1 provides a summary of the evidence related to the proportion of low-income households that are homeowners derived from the range of different sources we have looked at. Typically, just under half those on low incomes or experiencing necessity deprivation were homeowners. Moreover, this pattern has remained fairly consistent over time, although the BHPS suggests some growth.

The other important point to note is that in general, on the income measures of poverty (lowest quintile and 60 per cent of the median), seven out of ten low-income homeowners are outright owners and only 30 per cent have mortgages (SEH and FRS). However, this is not true in the BHPS where the 2002 figure suggests that the split between the two is fairly even, and earlier years suggested a majority of homeowners with mortgages. Moreover, mortgage holders are a majority on the necessity definition. As discussed in Section 6.3, this reflects the relatively high

proportion of older people among low-income homeowners, but it also reflects the fact that even younger low-income homeowners are more likely to be outright owners than people of the same age with higher incomes.

Table 6.1 shows that the FRS for 2002/03 (our benchmark data source) found that 35 per cent of low-income households owned their homes outright, and 15 per cent were buying their homes with the help of a mortgage. Thus, 50 per cent of low-income households were homeowners. The proportions in the 1995/96 survey were almost identical.

We also looked at the position after housing costs (using the FRS definition of housing costs, which excludes homeowners' repair costs) using the FRS for 2002/03. Using both the lowest quintile measure (£193) only 35 per cent of low-income households are homeowners (21 per cent outright owners and 15 per cent homeowners with mortgages). Using the 60 per cent of the median measure (£212) the proportion is slightly higher (37 per cent) with 23 per cent accounted for by outright owners and 14 per cent accounted for by homeowners with mortgages.

The SEH has a lower proportion of homeowners among those with low income. This source found that on the 60 per cent of median income measure, 30 per cent of households on a low income are outright owners and 13 per cent are homeowners with a mortgage. The proportions using the bottom quintile measure are slightly lower (25 per cent and 11 per cent respectively). The main reason for this appears to be that even after weighting, the survey contains a high concentration of low-income households without children where nobody is in paid work, so that the cut-off for defining low income is markedly lower than it is in the FRS, for example (£171 household equivalised income for the lower quintile compared with £227 for the FRS). The difference with the 60 per cent of the median measure is smaller (£216 against £228). This survey also covers only England rather than the whole of the UK. However, this might be expected to increase the proportion of low-income households who are homeowners, since home ownership is higher in England than it is in other parts of the UK.

The BHPS allows us to track the proportion of those who have low incomes who are homeowners over time. There appears to have been a general upward trend since the early 1990s. As Table 6.1 shows, taking the 60 per cent of the median measure, in 1991 45 per cent of low-income households were homeowners. Between 1992 and 1995 it varied between 40 and 43 per cent, between 1996 and 1998 it varied between 44 and 46 per cent. In 1999 it grew sharply to 54 per cent, and by 2001 and 2002 it was 57 to 58 per cent.

The BHPS shows a different split between outright owners and those with mortgages than the other data sources. In 2002, 26 per cent of low-income households were outright owners and 31 per cent were buying with a mortgage. The other data sources show more outright owners than mortgagees. However, in the BHPS the proportion of low-income households who are outright owners has grown more than the proportion who are buying their homes with a mortgage. It

was around 17 per cent in the early 1990s and around 27 per cent after 2000. The proportion of low-income households with mortgages was around 26 per cent in the early 1990s and around 30 per cent since 2000. In all cases, there have been small fluctuations from year to year.

In the BHPS, the lowest quintile measure of low income is consistently higher than the measure based on 60 per cent of the median. In most years it shows a slightly higher proportion of homeowners among low-income households than does the 60 per cent of median measure. In 2002, 60 per cent of households with incomes in the bottom quintile were homeowners according to the BHPS (31 per cent with mortgages and 29 per cent outright owners). This is the highest proportion of any of the data sources examined in this study.

Among low-income families with children the proportion who are homeowners is lower than for the population generally. According to the FACS, 38 per cent of low-income families are homeowners, while according to the FRS (again taking just families with children) around 30 per cent are.

Only the FACS and the PSE Survey allow us to measure necessity deprivation, and they do so on different bases. The PSE Survey identifies 29 necessities and defines a household as experiencing necessity deprivation if they lack two or more of them. On this basis, 18 per cent of households experiencing necessity deprivation are outright owners and 36 per cent are buying their homes with a mortgage. Note that when relative income is used as a measure, the proportion of outright owners among low-income households is typically around twice the proportion of those with mortgages, whereas the reverse is true using necessity deprivation as a measure. However, it is notable that the PSE Survey found that only a quarter (24 per cent) of those in the lowest quintile were outright owners, which is lower than the proportion found in the other sources. Since this source had a much smaller sample size than any of the other data sources included in this report, it should perhaps be treated with particular caution.

The FACS included only 11 of the 29 necessities in the PSE Survey necessities, so we have used lack of one of them to approximate to the PSE Survey definition of deprivation. On this basis, just under 40 per cent of families with children experiencing necessity deprivation are homeowners. This is similar to the proportion who are defined as having low incomes on a relative income basis.

Table 6.1 Proportion of low-income households who are homeowners

<i>per cent</i>								
Data source	Population base	Number of households in sample with income data	Ownership status	Necessity deprivation	Bottom quintile	£ per week	60% of median	£ per week
Family Resources Survey 2002/03	All households in the UK	28,687	Outright owner		35		35	
			Buying with mortgage		15		15	
			All owners		50	227	50	228
Family Resources Survey 1995/96	All households (except N Scotland and N Ireland)	26,435	Outright owner		34		34	
			Buying with mortgage		16		16	
			All owners		50	160	50	161
Families and Children Study 2002	Families with children (excluding N Ireland)	6,341	Outright owner	4	10		9	
			Buying with mortgage	36	28		30	
			All owners	40	38	188	39	173
Survey of English Housing 2002/03	All households	15,982	Outright owner		25		30	
			Buying with mortgage		11		13	
			All owners		36	171	43	216
British Household Panel Survey 2002	All households	9,353	Outright owner		29		26	
			Buying with mortgage		31		31	
			All owners		60	337	57	299

Continued

Table 6.1 Continued

<i>per cent</i>								
Data source	Population base	Number of households in sample with income data	Ownership status	Necessity deprivation	Bottom quintile	£ per week	60% of median	£ per week
British Household Panel Survey 2001	All households	10,632	Outright owner		28		28	
			Buying with mortgage		30		30	
			All owners		58	326	58	295
British Household Panel Survey 2000	All households	8,762	Outright owner		27		27	
			Buying with mortgage		29		28	
			All owners		56	318	55	290
British Household Panel Survey 1999	All households	8,798	Outright owner		25		25	
			Buying with mortgage		26		29	
			All owners		51	294	54	271
British Household Panel Survey 1998	All households	6,005	Outright owner		21		20	
			Buying with mortgage		26		26	
			All owners		47	279	46	261
British Household Panel Survey 1997	All households	6,908	Outright owner		21		19	
			Buying with mortgage		25		25	
			All owners		46	271	44	256
British Household Panel Survey 1996	All households	5,064	Outright owner		19		18	
			Buying with mortgage		27		28	
			All owners		46	256	46	238

Continued

Table 6.1 Continued

<i>per cent</i>								
Data source	Population base	Number of households in sample with income data	Ownership status	Necessity deprivation	Bottom quintile	£ per week	60% of median	£ per week
British Household Panel Survey 1995	All households	5,033	Outright owner		18		15	
			Buying with mortgage		25		25	
			All owners		43	239	40	225
British Household Panel Survey 1994	All households	5,127	Outright owner		20		17	
			Buying with mortgage		25		25	
			All owners		45	226	42	213
British Household Panel Survey 1993	All households	5,232	Outright owner		17		15	
			Buying with mortgage		27		28	
			All owners		44	209	43	202
British Household Panel Survey 1992	All households	5,227	Outright owner		17		16	
			Buying with mortgage		25		25	
			All owners		42	217	41	199
British Household Panel Survey 1991	All households	5,511	Outright owner		21		18	
			Buying with mortgage		26		27	
			All owners		48	206	45	182
Poverty and Social Exclusion Survey 2000	All households	1,534	Outright owner	18	24			
			Buying with mortgage	36	19			
			All owners	53	43			

Notes:

1. Unless indicated otherwise, income is household (family in the FACS) equivalised income before housing costs.

2. Necessity deprivation is defined as lacking two or more out of 29 necessities in the PSE Survey, or one out of 11 necessities in the FACS.

6.2 Sensitivity to the low-income threshold

In view of the fact that low-income homeowners appeared to have incomes close to the threshold, we undertook some sensitivity analysis using the FRS for 2002/03. This is shown in Table 6.2.

Since the thresholds of low income used in this study are between £200 and £250 a week before housing costs for the 2002/03 FRS (£228 for 60 per cent of the median and £227 for the lowest quintile), it is clear that there is a high degree of sensitivity to the cut-off point.

In Table 6.2 there are fifteen income groups at intervals of £50 a week. If households were distributed evenly across these groups, around seven per cent of households would fall into each group. In fact, however, the £200-£250 group (that is the group which covers the threshold between low-income and higher-income households) contains 12 per cent of all tenants and nine per cent of all homeowners with incomes of less than £750 a week. It is, therefore, a relatively heavily populated part of the income distribution.

Furthermore, as the first column of Table 6.2 shows, the proportion of homeowners in each of these income groups ranges from a low of 43 per cent to a high of almost 90 per cent. The income group with the lowest proportion of homeowners (43 per cent) is in fact the £200-£250 group. All other income groups (including the lowest groups) have higher proportions of homeowners than the £200-£250 group which includes the threshold. At incomes of £250 to £300 a week, 49 per cent are homeowners. The lowest income groups have around 58 per cent homeowners, while the highest income groups have 80 per cent or more homeowners.

Table 6.2 Proportion and number of households in different income groups who are homeowners

Income band (£ pw)	Proportion who are homeowners %	Number of home-owners in sample	Number of tenants in sample
Less than £50	58	130	95
£50 to £100	57	156	116
£100 to £150	58	493	351
£150 to £200	50	1,273	1,271
£200 to £250	43	1,387	1,839
£250 to £300	49	1,527	1,599
£300 to £350	61	1,562	993
£350 to £400	68	1,463	694
£400 to £450	74	1,371	478
£450 to £500	77	1,261	372
£500 to £550	83	1,213	255
£550 to £600	87	1,090	166
£600 to £650	88	944	133
£650 to £700	88	763	104
£700 to £750	90	673	79

Source: Family Resources Survey 2002/03.

Table 6.3 illustrates the sensitivity of the composition of the low-income homeowner population both to the measurement of income, and to the low-income threshold. It is based on the FRS and the SEH, both for 2002/03.

The FRS dataset includes a calculated value for equivalised household income. The SEH and the EFS only include household income. In order to attempt a comparison between the two sources, we had to calculate an equivalence scale for each SEH and EFS household, based on its composition. We did this using the standard values for each adult and for children of different ages used in both the Households Below Average Income series and the FRS (DWP 2004). We then used the equivalence scale to calculate an equivalised household income. There are, therefore, two potential sources of error in the calculation of income in the SEH and the EFS: measurement error in the original survey, which have a less detailed bottom up calculation of income than the FRS, and error in our calculation of the equivalence scale.

In fact the two data sources show very similar patterns. Taking £175 as the income cut-off, both data sources found that three-quarters of homeowner households had anyone in paid employment. Even at cut-offs of £200 and £225, there was little change in the proportion in paid employment (an increase to 26 per cent in the FRS and 29 per cent in the SEH). In the overall population of homeowners six, out of ten households (62 per cent in the FRS and 60 per cent in the SEH) had someone in paid work.

Table 6.3 also shows that both surveys found that just under a third of households were families with children (32 per cent in the FRS and 29 per cent in the SEH). Families with children had a lower representation in the low-income homeowner population than their overall proportion in the population. A quarter (25 per cent) of homeowner households with incomes under £175 a week were families with children according to the FRS (21 per cent according to the SEH). The proportion fell slightly at the higher income cut-off levels: 22 per cent in the FRS and 20 per cent in the SEH at £200 a week and 21 per cent in the FRS, and 20 per cent in the SEH at £225 a week.

The average age of all homeowner households was 51 according to the SEH and 45 to 54 according to the FRS. The average age of low-income homeowner households was higher. In the FRS the average age was 60 to 64 for homeowners with incomes below £175 and below £200 a week (61 per cent and 62 per cent respectively for the SEH). At a cut-off of £225 a week the average age in the FRS was a little higher (65 to 69) whereas that in the SEH was still 62.

The lower half of Table 6.3 has the same information for household equivalised income after housing costs, using the FRS for 2002/03. The lowest quintile (£192) and 60 per cent of the median (£212) come in the same range, so we have used the same cut-offs. The proportion of families with children is slightly higher using the after housing costs measure. At £175, 28 per cent are families with children, at £200 it is 26 per cent, and at £335 it is 25 per cent. The average age is slightly lower (55 to 59 at £175 and 60 to 64 at £225). The proportion in paid employment is slightly higher (28 to 29 per cent). Thus, taking housing costs into account changes the composition a little, but it is still very unlike the overall population of homeowners.

Table 6.3 Composition of the low-income homeowner population in different data sources and at different income levels 2002/03

Survey	<£175		<£200		<£225		population whole	
	FRS	SEH	FRS	SEH	FRS	SEH	FRS	SEH
*Household equivalised income before housing costs								
Anyone in employment	25%	26%	25%	29%	26%	29%	62%	60%
Families with children	25%	21%	22%	20%	21%	20%	32%	29%
Average age	60-64	61	60-64	62	65-69	62	45-54	51
Household equivalised income after housing costs								
Anyone in employment	29%		28%		29%		62%	60%
Families with children	28%		26%		25%		32%	29%
Average age	55-59		60-64		60-64		45-54	51

* This variable was included in the FRS but we had to calculate it for the SEH to produce this comparison.

6.3 Demographic and labour market characteristics of low-income households

Table 6.4 which is based on our benchmark data source, the 2002/03 FRS, shows the composition of the low-income homeowner population in terms of their demographic and labour market characteristics. As the lowest quintile and 60 per cent of the median were very similar (£228 and £227 respectively) there are only minor differences between the two measures.

The majority (60 per cent) of low-income homeowners were older people. Single adults aged 60 to 74 were 13 per cent, couples aged 60 to 74 were 20 per cent, single adults aged 75 or more were 17 per cent and couples aged 75 or more were ten per cent of the total. Families with children were 18 per cent of the low-income homeowner population. Lone parents in paid work with dependent children were only two per cent of the total, while non-employed lone parents were three per cent. Couples with children where at least one partner was in paid work were ten per cent of the total. Other household types accounted for around a fifth of low-income homeowner households. Couples aged under 60 without children and three adult households were around seven per cent each, and single adults without children aged under sixty accounted for nine per cent. Thus, childless households of working age account for a greater proportion of low-income homeowner households than do families with children.

If we look at homeowner households in different demographic groups, the second and fourth columns of Table 6.4 show the proportion of each type of household which had low incomes. Taking the older age groups, we find that only a minority of homeowner households have low incomes. Only a third (34 per cent) of homeowner couples aged 75 or more had low incomes, although a rather higher proportion (40 per cent) of single people aged over 75 did. Among homeowner households aged 60 to 74, around a quarter (23 per cent of couples and 27 per cent of single adults) had low incomes.

Among homeowner families with children, a clear majority of those with no adult in paid employment had low incomes (79 per cent of couples and 63 per cent of lone parents); although in both cases there are only around 100 people in the sample. Among the much larger number of homeowner families with an adult in paid employment, only six per cent of couples and ten per cent of lone parents had low incomes.

Among working-age homeowner households without children, 12 per cent of single people, five per cent of couples and nine per cent of three-adult households had low incomes.

Table A.7 in the Appendix provides the same information for homeowners taking income after housing costs. The characteristics of the low-income homeowner population in Table A.7 are very similar to the characteristics before housing costs in Table 6.4. We have, therefore, concentrated our analysis on the before housing costs measure, rather than repeating all tables and analysis for both definitions of income.

Tables 6.5 and 6.6 provide information similar to that in Table 6.4 from the 2002/03 FRS about all tenant households and about social tenant households. Both tables show a similar pattern as three-quarters of all low-income tenant households live in social, rather than private, housing.

The composition of the low-income tenant population was very different from that of the low-income homeowner population. A quarter (24 per cent) of low-income tenant households were non-employed lone parents with dependent children, whereas this group were only three per cent of low-income homeowner households. A further eight per cent of low-income tenant households were couples with dependent children with neither adult in paid employment, whereas this group were only three per cent of low-income homeowner households. Thus, a third of low-income tenants were families with children where nobody works. A further 11 per cent were families where at least one adult was working. Altogether, nearly half of low-income tenants were families with children.

Only 22 per cent of low-income tenant households were either couples or single people aged 60 or more (a group that made up 60 per cent of low-income homeowners). Five per cent were single adults and six per cent couples aged 60 to 74 and seven per cent were single adults and four per cent couples aged 75 or more. More strikingly, a quarter (23 per cent) of low-income tenants were single adults aged under 60 without dependent children. Other working-age households without children were 12 per cent of the total.

The proportions of social tenants in each category (shown in Table 6.6) were similar (within one percentage point either side) to the proportion among all tenants. The exception was the proportion of lone parents without dependent children (26 per cent) which was two percentage points higher among social tenant low-income households than it was among all tenant low-income households (24 per cent).

The equivalent tables from the FRS for 1995/96 and from the SEH (SEH 2002/03) are in the Appendix. Tables A.1 to A.3 from the 1995/96 FRS show that the proportion of low-income homeowners who are single people or couples aged over 60 has remained stable, as has the proportion of families with children where at least one adult is in paid employment. There has been a fall of around a third in the proportion of low-income homeowner households who are families with dependent children with no adult in paid employment (from nine per cent in FRS 1995/96 to six per cent in 2002/03). This has been offset by small increases in the various households of adults aged under 60 with no dependent children. Among tenant households, there was also a fall in the proportion who were couples with dependent children neither of whom was in paid employment (from 14 per cent to eight per cent of the total). The changes in other groups were relatively small.

It is likely that this compositional change reflects both the fall in the proportion of families with children who live in workless households and the greater generosity of out-of-work benefits for families with children, particularly those with younger children. The greater generosity of payments to people over state pension age is the probable reason why their representation among the low-income homeowner population has not increased to fill the gap.

Table 6.4 Demographic and labour market characteristics of low-income homeowner households 2002/03

	n	Lowest quintile measure (£228)		60% of median measure (£227)	
		% of group in with low income	% of low-income homeowners	% of group with low income	% of low-income homeowners
All households	28,687	20	•	20	•
All homeowners	19,551	15	•	15	•
Single adults aged under 60 in paid employment with dependent children	543	10	2	10	2
Single adults aged under 60 not in paid employment with dependent children	112	63	3	63	3
Couples aged under 60 with at least one partner in paid employment with dependent children	4,519	6	10	6	10
Couples aged under 60 neither in paid employment with dependent children	100	79	3	79	3
Single adults aged 60-74	1,356	27	13	27	13
Couples aged 60-74	2,442	22	20	23	20
Single adults aged 75+	1,185	40	17	40	17
Couples aged 75+	796	34	10	34	10
Other single adults	2,132	12	9	12	9
Other couples	3,380	5	7	5	7
Three adult households	2184	8	7	9	7
Total	18,749		100		100

Source: Family Resources Survey 2002/03.

Table 6.5 Demographic and labour market characteristics of all low-income tenant households 2002/03

	n	Lowest quintile measure (£228)		60% of median measure (£227)	
		% of group in with low income	% of low-income tenants	% of group with low income	% of low-income tenants
All households	28,687	20	•	20	•
All tenants	9,045	32	•	50	•
Single adults aged under 60 in paid employment with dependent children	481	24	4	25	4
Single adults aged under 60 not in paid employment with dependent children	972	65	24	66	24
Couples aged under 60 with at least one partner in paid employment with dependent children	846	21	7	21	7
Couples aged under 60 neither in paid employment with dependent children	279	76	8	77	8
Single adults aged 60-74	952	13	5	14	5
Couples aged 60-74	484	34	6	36	6
Single adults aged 75+	1,061	17	7	18	7
Couples aged 75+	280	37	4	38	4
Other single adults	1,703	36	23	36	23
Other couples	737	18	4	18	5
Three adult households	645	28	7	28	7
Total	8,440		99		100

Source: Family Resources Survey 2002/03.

Table 6.6 Demographic and labour market characteristics of low-income social housing tenant households 2002/03

	n	Lowest quintile measure (£228)		60% of median measure (£227)	
		% of group in with low income	% of low-income social tenants	% of group with low income	% of low-income social tenants
All households	28,687	20	•	20	•
All social tenants	9,045	32	•	50	•
Single adults aged under 60 in paid employment with dependent children	361	26	5	27	5
Single adults aged under 60 not in paid employment with dependent children	773	69	26	71	26
Couples aged under 60 with at least one partner in paid employment with dependent children	503	27	7	27	6
Couples aged under 60 neither in paid employment with dependent children	222	77	8	77	8
Single adults aged 60-74	824	12	5	13	5
Couples aged 60-74	393	35	7	36	7
Single adults aged 75+	904	14	6	14	6
Couples aged 75+	229	35	4	37	4
Other single adults	1,022	45	22	46	22
Other couples	321	30	5	31	5
Three adult households	399	31	6	31	6
Total	5,951		100		100

Source: Family Resources Survey 2002/03.

6.4 Families with children

Evidence from three of our data sources (the FRS 2002/03, the BHPS for 2002 and the SEH for 2002/03), suggests that around 30 per cent of low-income families with children were homeowners, while 70 per cent were tenants. However, the FACS 2002 suggests that 38 per cent of low-income families were homeowners. Moreover, according to the FACS, more than a quarter (28 per cent) of low-income homeowner families were lone parents. Since around a quarter of all FACS families were lone parents, this source suggests, in contrast to the others, that lone parent families are not underrepresented in the low-income homeowner population. As we saw in Section 6.3, families with children with no adult in paid employment were rare among low-income homeowners in the FRS 2002/03 (comprising only six per cent of the total). This is in spite of the fact that a high proportion of such households had low incomes (two-thirds of non-working lone parents had low incomes, and eight out of ten couples with children where neither partner worked did). This is because according to the FRS, low-income lone parents were very unlikely to be homeowners. Only 14 per cent of them were. On the other hand, families with dependent children where one of the adults had a paid job made up around an eighth of low-income homeowners.

Part of the difference between the FACS and the other data sources will be due to the fact that the FACS does not collect income for self-employed families. In the 2002 FACS, income data is missing for more than an eighth of the 7,883 respondents. This group is better qualified than the FACS sample in general (more than 40 per cent have qualifications at A'level or above, compared with only 30 per cent of the whole sample) and come from higher social classes (more than 40 per cent are managers, professionals or associate professionals). These characteristics are generally associated with higher incomes, and their omission is likely to bias downwards the income cut-offs used to measure relative poverty.

Table 6.7 compares the composition of low-income families in the FACS 2002 and in the FRS for 2002/03. It is based on the lowest quintile measure. The main difference occurs in homeowner couple families with children where no adult is in paid employment. There are very few of these families in the FRS, but much larger numbers in the FACS. Moreover, according to the FRS just over half (56 per cent) of them are on low incomes, whereas according to the FACS, nearly three-quarters (74 per cent) are. It is, however, worth bearing in mind that this is a small group (113 families) in the FACS. In the FRS, six per cent of homeowner couple families with children with at least one partner in paid employment account had low incomes, whereas according to the FACS, eight per cent of this group did. In both cases the sample sizes are fairly large (3,361 and 4,571). Employed couples with dependent children comprise more than 80 per cent of homeowner families. Thus, even though only a small proportion of this group have low incomes, they make up more than half of all the low-income homeowner families.

The lowest quintile of equivalised household income before housing costs in the 2002 FACS is £191 a week, which is well below the lowest quintile for the whole population in the FRS for 2002/03 (£227 a week). We have investigated this discrepancy in two ways. We tried using the FRS low-income cut-off (£228 a week) in the FACS, and found that the proportion of homeowners only falls a little (to 37 per cent). This, therefore, suggests that the FACS has a higher proportion of the sample who are homeowners than other data sources. However, when we tried the reverse, looking at the tenure composition of families within the FRS who have equivalised household incomes of less than the FACS lower quintile figure of £191 a week we found that the pattern is very similar to the pattern in the FACS (39 per cent owners, 60 per cent tenants).

6.5 Self-employed low-income households

Those who are self-employed are overrepresented among low-income homeowners. More than three-quarters (77 per cent) of low income homeowner households have nobody in paid employment, reflecting the large proportion of these households who are aged 60 or more. Of the quarter which does have an adult in paid employment, 39 per cent are self-employed, compared with 13 per cent of higher-income homeowner households with someone in paid employment (FRS 2002/03).

Low-income homeowner households who are self-employed tend to be younger (43 per cent are under 45) and to have lower incomes than other low-income homeowner households. Their median equivalised household income before housing costs is £145 a week, whereas low-income homeowner households headed by employees have a median income of £173 a week, and those where the head of household has no paid employment have a median income of £168 a week (FRS 2002/03).

Table 6.7 Demographic and labour market characteristics of low-income homeowner families with children

	Lowest quintile measure					
	% of group with low income	FACS (£191) % of low-income home owner families	n	% of group with low income	FRS (£227) % of low-income home owner families	n
All families	20	•	6,341	21	•	9,166
All homeowner families	12	•	4,204	10	•	6,159
Single adults aged under 60 in paid employment with dependent children	10	9	439	11	12	557
Single adults aged under 60 not in paid employment with dependent children	76	19	124	65	14	106
Couples aged under 60 with at least one partner in paid employment with dependent children	8	55	3,361	6	52	4,571
Couples aged under 60 neither in paid employment with dependent children	74	17	113	56	23	206
Total	482	100	4,037	505	100	5440

Source: Families and Children Study 2002, Family Resources Survey 2002/03.

Self-employed low-income homeowner households also receive relatively little income from tax credits. Only 15 per cent receive any tax credits (although those that do receive an average of £97 a week). More than a quarter (27 per cent) of low-income employee households receive tax credits, and they receive an average of £85 a week (FRS, 2002/03). There are, however, recognised problems with the measurement of the incomes of self-employed people, not least because they can fluctuate, but also because the incomes of self-employed people are calculated net of expenses (UK Data Archive 2004).

Self-employed members of low-income homeowner households tend to work quite long hours. Half work 40 hours a week or more. A quarter work 55 or more hours a week. The equivalent figures for employees are 35 hours a week and 40 hours a week respectively (FRS, 2002/03).

One in ten self-employed low-income homeowner household heads is of Asian origin. Households of Asian origin are generally overrepresented among the low-income homeowner population. In the population as a whole 2.4 per cent of households are headed by someone of Asian origin, whereas people of Asian origin head five per cent of low-income homeowner households. They are, thus, particularly strongly represented among low-income homeowners who are self-employed (FRS, 2002/03).

7 What are the circumstances of low-income homeowners?

7.1 Income levels

Table 7.1, derived from the FRS 2002/03, shows the median incomes of low-income homeowners and low-income tenants in different demographic and labour market groups. In almost all the groups, the median income of the homeowners is lower than the median income of the equivalent group of tenants. The main exception is couple families with children where at least one adult is self-employed, where homeowner households have a median income of £154 a week, and tenant households have a median income of £141 a week.

The low-income homeowner households with the highest incomes are employed lone parents (£183 a week). Employed lone parents who are tenants have slightly higher incomes (£191 per week). Among low-income homeowner households the next highest incomes are found in some of the oldest households: single men aged 75+ (£186 a week) and couples aged 75+ (£183 a week). Single men who are aged 75+ who are tenants also have a median income of £186 a week, while tenant couples over 75 have a median income of £197 a week.

The low-income homeowner households with the lowest incomes are single men aged under 60 (£111 a week). Single men under 60 who are tenants have markedly higher incomes (£164 a week) (statistically significant at one per cent level). Low-income homeowner households who are single women aged under 60 also have very low median incomes (£136 a week), while tenants in this group, again, have markedly higher incomes (£169 a week) (also significant at one per cent level). Low-income homeowner couple families with dependent children where no adult is in paid work, also have very low incomes (£149 a week). Low-income couple families without paid work who are tenants have higher incomes (£174 a week). (This difference is significant at the one per cent level).

The key message from Table 7.1 (although it needs to be recognised that the sample sizes are often small) is that although most low-income homeowners are older people, it is the low-income homeowners in younger age groups who have the lowest incomes. The lowest incomes are found among couples with children and among single people aged under 60. Moreover, these are the groups where the level of commitments is higher. For example, 83 per cent of the low-income homeowner couples with dependent children where one adult is in paid employment, have a mortgage on their home. The same is true of half the single adults aged under 60, the group with the lowest incomes. By contrast, only seven per cent of low-income homeowners aged 65 or more have a mortgage and only three per cent of those over 75 (who have the highest incomes).

Table 7.1 Median incomes of low-income homeowners and low-income tenants

Group	Homeowners		Tenants	
	Median income £ per week	n	Median income £ per week	n
Single adults aged under 60 in paid employment with dependent children	183	54	191	120
Single adults aged under 60 in paid employment with 1-2 dependent children	..	44	193	93
Single adults aged under 60 in paid employment with 3+ dependent children	..	10	..	27
Single adults aged under 60 not in paid employment with dependent children	151	71	189	652
Single adults aged under 60 not in paid employment with 1-2 dependent children	148	54	189	501
Single adults aged under 60 not in paid employment with 3+ dependent children	..	17	189	151
Couples aged under 60 with at least one partner in paid employment with dependent children	166	265	180	174
Couples aged under 60 with at least one partner in paid employment with 1-2 dependent children	165	163	170	108

Continued

Table 7.1 Continued

Group	Homeowners		Tenants	
	Median income £ per week	n	Median income £ per week	n
Couples aged under 60 with at least one partner in paid employment with 3+ dependent children	171	100	179	72
Couples aged under 60 with at least one partner in paid employment with dependent children (employees)	176	147	185	106
Couples aged under 60 with at least one partner in paid employment with dependent children (self-employed)	154	90	..	39
Couples aged under 60 neither in paid employment with dependent children	149	103	174	306
Single men aged 60-74	166	105	..	47
Single women aged 60-74	180	259	177	85
Couples aged 60-74	176	554	191	173
Single men aged 75+	186	95	..	46
Single women aged 75+	178	383	185	142
Couples aged 75+	183	272	197	108
Single men aged <60	111	131	162	355
Single women aged <60	136	127	169	266

Source: Family Resources Survey 2002/03.

Note: Income is not reported in the table where the number in the sample is less than 50.

7.2 Value of home

In 2002/03 around two-thirds of low-income homeowners lived in low value homes (below Council Tax Band D), although only just over half (55 per cent) of all homeowners lived in such homes (Table 6.2). However, around 12 per cent of low-income homeowners (13 per cent in the FRS and 11 per cent in the SEH) were living in homes in Council Tax Bands E or above. Around a quarter of all homeowners lived in these higher value homes. Half the low-income households living in these higher value homes were aged 65 or more, and half were under 65 (SEH2002/03).

Table 7.2 Council Tax band of owner-occupied homes

Council tax band	All home owners FRS	Low-income home owners FRS	Low-income tenants FRS	All home owners SEH	Low-income home owners SEH*
A	14	22	52	14	25
B	19	23	24	18	23
C	22	23	14	21	21
D	21	19	5	24	20
E	13	8	2	11	6
F	7	3	<1	6	3
G	4	1	<1	4	2
H	1	..	-

Note: based on 60% of median.

Source: Family Resources Survey 2002/03, Survey of English Housing, 2002/03.

Although there were some differences in the pattern of house values between low-income homeowners and higher-income homeowners, these are not large. By contrast, low-income tenants lived in lower value homes. More than half lived in homes in Band A and less than two per cent lived in homes in Band E or above.

7.3 Mortgages

Altogether 70 per cent of low-income homeowners owned their homes outright, nearly double the proportion among higher-income homeowners (FRS and SEH, 2002/03). In part this reflects the fact that low-income homeowners are older than homeowners in general. However, low-income homeowners under 65 were also less likely than higher-income homeowners in the same age group to be buying their home with the help of a mortgage and were more likely to be outright owners. Around four out of ten low-income outright owners had never had a mortgage on their property. This compares with a third of other outright owners (SEH, 2002/03).

However, this was not because low-income homeowners had a higher rate of inheritance of their property. Low-income homeowners were no more likely than higher-income homeowners to have acquired their homes by inheritance. Around 12 per cent of both groups inherited their home.

Table 7.3 Proportion of low-income and higher-income homeowners who have a mortgage

<i>per cent</i>		
Age of household head	Low-income homeowners %	Higher-income homeowners &
16-19	0	50
20-24	81	97
35-29	75	96
30-34	84	95
35-39	85	94
40-44	79	89
45-49	69	81
50-54	51	68
55-59	34	50
60-64	26	30
65-69	12	12
70-74	8	8
75-79	5	5
80-84	3	3
85+	2	3
All ages	30	62

Source: Family Resources Survey 2002/03.

For the 30 per cent of low-income homeowners who had a mortgage, an important issue is the level of mortgage repayments in relation to their income. For each household with a mortgage in the FRS and the SEH, we calculated their mortgage payments as a proportion of their equivalised household income before housing costs. This is shown in Table 7.4.

The average mortgage payment of low-income homeowners who have a mortgage is £19 a week, compared with £51 a week for higher-income homeowners. The maximum mortgage payment for low-income homeowners is £309 a week (FRS 2002/03).

According to the FRS 2002/03, at least half the low-income homeowners with mortgages had mortgage repayments that amounted to a fifth or less of the income of the household. A quarter of low-income homeowners with mortgages, however, had repayments that were more than 39 per cent of their household incomes, which is clearly a significant burden. But more than five per cent of low-income homeowners with mortgages had mortgage repayments that were greater than their household income, and one per cent had repayments that were more than eleven times their income. Thus, although most low-income homeowners did not have mortgages,

and half or more of those who did had repayments that were affordable within their current income, around 15 per cent of low-income homeowners had mortgage commitments that were not affordable within their current income.

Reflecting the lower measured incomes in the SEH as compared with the FRS, the SEH ratios were higher throughout the distribution for both low-income mortgage payers and mortgage payers generally. According to the FRS, among homeowners with mortgages as a whole, 95 per cent had payments that were 28 per cent or less of their equivalised household income. Only one per cent had payments that were 64 per cent or more of their household income. According to the SEH three-quarters of homeowners generally had payments that were less than 22 per cent of their income, but by the 95th percentile the payment ratio was 43 per cent.

Table 7.4 Mortgage payments as a proportion of household equivalent income

	<i>percentage of income</i>			
	Low-income homeowners with mortgages (FRS)	All households with mortgages (FRS)	Low-income owners with mortgages (SEH)	All households with mortgages (SEH)
Median	20	9	34	14
75th percentile	39	14	57	22
95th percentile	126	28	150	43
99th percentile	1,151	64	1,185	96
n	848	11,036	539	6,430

Source: Family Resources Survey 2002/03 and SEH, 2002/03.

Looking at the issue from a different angle, the SEH asked respondents if they have any difficulty meeting their current mortgage payments. In 2002/03, three-quarters of low-income homeowners reported that they had no difficulty keeping up with their payments, while 20 per cent found it fairly difficult and five per cent found it very difficult.

In fact, according to the SEH 2002/03, 97 per cent of low-income homeowners were up-to-date in terms of their mortgage payments, and only three per cent had any arrears. Only one per cent of higher-income homeowners had any arrears. This figure is similar to those of the Council of Mortgage Lenders (CML) shown in Table 7.5. According to the CML, around 0.7 per cent of all borrowers were in arrears in 2003, and around 0.9 per cent were in 2002. Thus, low-income homeowners are three times as likely as other borrowers to be in arrears. However, the current rate of arrears among all borrowers is much lower than it was in the mid-1990s, when more than four per cent of all borrowers were in arrears.

Table 7.5 Overall incidence of mortgage arrears

Year	No of mortgages at end of period	% with any arrears	No of mortgages 3-6 months in arrear at end of period	% of total	No of mortgages 6-12 months in arrear at end of period	% of total	No of mortgages >12 months in arrear at end of period	% of total
1993	10,137,000		•	•	107,600	1.1	69,800	0.7
1994	10,410,000	4.1	176,610	1.7	82,720	0.8	49,630	0.5
1995	10,521,000	3.8	174,380	1.7	79,850	0.8	45,530	0.4
1996	10,637,000	2.8	129,710	1.2	59,120	0.6	33,260	0.3
1997	10,738,000	2.4	117,760	1.1	49,440	0.5	26,320	0.3
1998	10,821,000	2.4	130,640	1.2	52,800	0.5	25,590	0.2
1999	10,981,000	1.9	104,570	1.0	41,940	0.4	20,300	0.2
2000	11,169,000	1.5	95,210	0.9	32,530	0.3	14,610	0.1
2001	11,243,000	1.2	79,160	0.7	27,510	0.2	11,820	0.1
2002	11,360,000	0.9	58,700	0.5	19,430	0.2	8,570	0.1
2003	11,436,000	0.8	47,680	0.4	16,780	0.2	7,610	0.1

Source: Council of Mortgage Lenders, 2004.

http://www.cml.org.uk/servlet/dycon/zt-cml/cml/live/en/cml/xls_pub_misc_a%26ph203tb1.xls

http://www.cml.org.uk/servlet/dycon/zt-cml/cml/live/en/cml/xls_pub_misc_a%26ph203tb2.xls

According to the SEH for 2002/03, eight out of ten low-income homeowners who were in arrears owed less than three months' payments (the CML statistics only cover those who are three months or more in arrears). Around a quarter of low-income homeowners who were behind with their mortgage payments had an arrangement with their lender to pay a reduced rate (SEH 2002/03).

No-one reported in the SEH that they were in arrears because their mortgage protection policy did not offer cover for their circumstances, but this may simply reflect the fact that many of them did not have mortgage protection insurance. According to the SEH 2002/03, almost 60 per cent of low-income homeowners with mortgages had no mortgage protection insurance covering sickness or unemployment. This compares with 51 per cent of homeowners generally. Part of the explanation for the difference may lie in the age profile of low-income homeowners. Ford *et al.* (2004) reported that relatively few older borrowers had any mortgage protection insurance.

Almost half (47 per cent) of the low-income homeowners in the SEH for 2002/03 who were in arrears, had fallen into arrears in the preceding three months. This compares with only a quarter of other borrowers who were in arrears, suggesting that the problems of low-income homeowners are often of relatively recent origin. However, a quarter had first fallen into arrears two years ago or more. Moreover, almost half (47 per cent) had had a previous spell of arrears.

The number of low-income homeowners in arrears in the SEH is small (only 17 people) so it is difficult to draw firm conclusions about the reasons they have fallen into arrears, but eight of the seventeen said that a partner leaving or dying was the main reason for them, for three it was because someone had been made redundant or become unemployed. In two cases, someone had experienced a fall in earnings. Of all the circumstances cited, only redundancy or unemployment is potentially insurable. Thus, eight out of ten low-income homeowners who had fallen into arrears would not have been able to claim on any private insurance even if they had it. This is consistent with previous research into the protection offered by mortgage protection insurance for people who experience a change in circumstances resulting in a drop in income (Ford *et al.*, 2004; Kempson *et al.*, 1999).

The FACS 2002 also covers mortgage arrears, and found that six per cent of low-income homeowners with dependent children had arrears on their mortgages. A third (eight) of these families owed more than three months' payments.

7.4 Repossessions

The SEH asks respondents if they have ever had their home repossessed. In 2002/03, this had happened to two per cent of all homeowner households. Those who were currently low-income homeowners were less likely than most other groups to have experienced repossession. Less than one per cent had done so. (Although this relates to only 13 cases, the difference is statistically significant). However, four per

cent of those who were currently low-income tenants had had previous experience of being a homeowner who had had their home repossessed. This accounts for five per cent of those who were higher-income tenants at the time of the survey and one per cent of those who were higher-income homeowners. Of those who had experienced having their home repossessed, 29 per cent were higher-income homeowners in 2002/03, 35 per cent were higher income tenants, 32 per cent were low-income tenants, and only four per cent were currently low-income homeowners. In other words, two-thirds of those who had had their homes repossessed had become tenants, while only a third had remained in, or returned to, home ownership.

This history of repossession reflects a very different background in both the housing market and the labour market in the early 1990s compared with the current decade. In terms of the labour market, January 1993 represented the peak in unemployment, when it reached just over 3 million on the standardised Internal Labour Organisation (ILO) definition. Since then it has more than halved to around 1.4 million. Thus, the early 1990s saw a much larger number of people whose incomes had fallen as a result of job loss, or having to take a new job with lower earnings than is likely to be the case currently. Repossessions were running at more than 58,000 in 1993 and just under 50,000 in 1994. In 2002, under 12,000 houses were repossessed and in 2003, under 10,000.

In addition, in the early 1990s the housing market itself was still suffering from the aftereffects of the 1989 housing boom and crash, so that many homeowners were suffering from negative equity. For example, the average house fell in value by nine per cent between 1989 and 1993. But for low-income homeowners, the drop may have been even greater. According to data from the Nationwide Building Society, the value of the houses of homeowners who lost their homes fell by more than 20 per cent between the peak in the third quarter of 1989 and 1993.

7.5 Help with mortgage payments

According to the SEH 2002/03, around 13 per cent of low-income homeowners with mortgages received help with their mortgage payments from the DWP. This help is available after a delay to people who are on Income Support or income-based Jobseekers' Allowance, or who receive the Pension Credit.

7.6 Age and size of home

Table 7.6 drawn from the SEH 2002/03, shows the ages of the homes of both low-income and higher-income homeowners. Around a fifth of both higher-income and low-income homeowners lived in homes built before 1919, and between 1919 and 1944. A quarter of low-income homeowners lived in homes built between 1945 and 1964, whereas this is true of only a fifth of higher-income homeowners. Higher-income homeowners were also slightly more likely to live in homes built between

1965 and 1984 (24 per cent as compared with 21 per cent). Low-income homeowners were much less likely than higher-income homeowners to live in homes built since 1985. Only nine per cent of low-income homeowners did, compared with 16 per cent of higher-income homeowners. Low-income tenants were much less likely than homeowners to live in homes built before 1945. Only a fifth of tenants lived in pre-war homes, compared with more than four out of ten homeowners.

Table 7.6 Age of home

Date property built	Low-income homeowners	Higher-income homeowners	Low-income tenants
Before 1919	22	21	13
1919-1944	23	20	17
1945-1964	25	19	31
1965-1984	21	24	27
1985 or later	9	16	13

Source: Survey of English Housing 2002/03.

Part of the explanation for the low proportion of homeowners living in homes built since 1985 is that low-income homeowners tend to have lived in their present homes for longer than higher-income homeowners. Half had bought their homes before 1986 and a quarter had bought them before 1975. Among higher-income homeowners, half had bought their homes since 1994 and only ten per cent had bought them before 1975. This reflects the fact that low-income homeowners are older than homeowners generally. Owners in their thirties will not have been in a position to buy a home before the 1990s, while only homeowners in their fifties would have been able to buy their homes in 1975.

The homes of low-income homeowners were slightly smaller than those of higher-income homeowners in terms of size as well, reflecting the lower number of homes in the highest Council Tax bands. Low-income homeowners had an average of 2.7 bedrooms in their homes. Higher-income homeowners have an average of 3.1 bedrooms, while low-income tenants have an average of 2.2 bedrooms. Low-income homeowners have an average of 1.5 living rooms. Higher-income homeowners had an average of 1.7, while low-income tenants had an average of 1.1.

Older low-income homeowners tended to live in slightly smaller houses than their younger counterparts. Those under 60 had an average of 2.9 bedrooms while those aged 60 or more had 2.6. However, both younger and older low-income homeowners had an average of 1.5 living rooms.

The BHPS asked respondents in 2001 whether they were short of space, and just over a quarter of low-income homeowners said that they were (see Table 7.8). Low-income homeowner families with dependent children were more likely to report

space shortages than other low-income homeowner groups. A third reported that they were short of space (BHPS 2001).

7.7 Condition of home

The best source of information about the condition of homes is the EHCS and the equivalent surveys in Scotland, Wales and Northern Ireland. For this report we have used information from the EHCS for 2001. We have used the survey's own measure of the lowest quintile of household income for our definition of a low-income homeowner household. This is not strictly the same as the approach used with the other data sources, but should provide a reasonably good approximation, given that the identification of income and details of household members is not as precise in this survey as it is in some of the others.

The condition of low-income homeowners' homes was slightly worse in 2001 than that of higher-income homeowners' homes (Table 7.7). Seven per cent of low-income homeowners had homes defined as unfit compared with only two per cent of higher-income homeowners. Moreover, low-income homeowners' homes which were classified as unfit had an average of 1.8 unfit items, whereas higher-income homeowners with unfit homes had an average of 1.6 unfit items.

The most common source of unfitness for low-income homeowners was facilities for food preparation: 2.9 per cent of homes were unfit, compared with only 0.8 per cent of higher-income homeowners' homes. Disrepair was almost as common (2.7 per cent of low-income homeowners' homes were in disrepair, compared with 1.1 per cent of higher-income homeowners' homes). Other common items were bath (1.1 per cent compared with 0.5 per cent), dampness (1.1 per cent compared with 0.4 per cent) and WC (one per cent compared with 0.4 per cent). No low-income homeowners' homes had problems with their cold water supply or lighting, although a very small proportion (0.1 per cent) of higher-income homeowners had these problems.

Unfitness was concentrated, in 2001, among younger low-income homeowners. One in ten (ten per cent) of low income homeowners aged under 60 had an unfit home, compared with only five per cent of low-income homeowners aged 60 or more).

The estimated average repair cost for urgent repairs for all low-income homeowners was £1,430, whereas that for higher-income homeowners was £1,177. For low-income homeowners whose homes were unfit, the estimated cost of urgent repairs was £7,005, while the urgent repair costs for higher-income homeowners whose homes were unfit was higher, at £8,257. The average urgent repair costs for low-income homeowners whose homes were not unfit was £1,036, whereas for higher-income homeowners whose homes were not unfit it was slightly lower, at £1,000.

Table 7.7 Proportion of homeowners where an element of their home rendered it unfit

Type of unfitness	<i>per cent</i>	
	Low-income owners	other owners
Bath	1.1	0.5
Dampness	1.1	0.4
Disrepair	2.7	1.1
Drainage	0.5	0.2
Food preparation	2.9	0.8
Heating	0.4	0.1
Lighting	0.0	0.1
WC	1.0	0.4
Structural stability	0.3	0.2
Ventilation	0.4	0.3
Cold water supply	0.0	0.1

Source: English House Condition Survey 2001.

Low-income homeowners aged 60 or more whose homes were unfit, had lower urgent repair costs (£6,509) than low-income homeowners aged under 60 whose homes were unfit (£7,916). Low-income homeowners aged 60 or more whose homes were fit had estimated urgent repair costs of £967, compared with £1,281 for low-income homeowners aged under 60 whose homes were fit.

We also have some information about the condition of the homes of low-income homeowners from the FACS for 2002 and from the BHPS for 2001. The two sources produce slightly different pictures with respect to the condition of low-income homeowners' homes, but the general conclusion is that they were in slightly worse condition than the average for the whole homeowner population. In many ways this finding is unsurprising. As we discuss below, low income home ownership tends not to be a persistent state, but in many cases is a transitory experience.

Table 7.9 is drawn from the FACS 2002. Low-income homeowners with children had houses that were in worse condition than the homes of higher-income homeowners on several indicators. They were twice as likely to be damp (eight per cent compared with four per cent) and to have problems related to plumbing (ten per cent compared with five per cent), to have had problems with insects, and with mice or rats (both two per cent compared with one per cent) and problems with draughts (13 per cent compared with seven per cent). Low-income homeowners and higher-income homeowners were equally likely to need new windows (both one per cent).

Other problems which low-income homeowners were around a third more likely to experience were water penetration (16 per cent compared with nine per cent), condensation (seven per cent compared with five per cent, general rot and decay (nine per cent compared with six per cent) and electrical wiring (eight per cent compared with five per cent).

Table 7.8 Incidence of problems with the home: families with children 2002

Problem	<i>per cent</i>	
	Low-income homeowner families with dependent children(n=523)	Higher-income homeowner families(n=3,681)
Rising damp in floors and walls	8	4
Water getting in from roof, gutters or windows	16	9
Bad condensation problems	7	5
Problems with mould growth	2	3
Electrical wiring	8	5
Plumbing	10	5
General rot and decay	9	6
Problems with insects	2	1
Problems with mice or rats	2	1
Problems with draughts	13	7
Needs windows replacing	1	1

Source: Families and Children Study (FACS) 2002.

More than a third (38 per cent) of low-income homeowners with children reported that one of the reasons for not having the repairs done was a lack of funds. This is true of less than a quarter (22 per cent) of higher-income homeowners (FACS 2002).

However, evidence from the BHPS in Table 7.9 showed that low-income homeowners taken as a whole (that is including older people and working-age households without children), had a below average incidence of problems with their homes in 2001 apart from leaking roofs and a shortage of space. The incidence of condensation (13 per cent), damp (eight per cent) and lack of heating (five per cent) was similar to that for all households. They were a third more likely to have leaky roofs (six per cent compared with four per cent) and 26 per cent were short of space, compared with 24 per cent of all households. The pattern in 1991 was similar (although the question asked was slightly different).

Table 7.9 Incidence of problems with home: all households, 2001 and 1991

Problem	<i>per cent</i>			
	BHPS 2001*		BHPS 1991*	
	Low-income homeowners n=1488	All households n=12,780	Low-income homeowner n=836	All households n=8,512
Condensation	13	13	10	10
Damp walls, floors etc	8	9	4	5
Lack of adequate heating	4	5	10	12
Leaky roof	6	4	3	2
Rot in windows, floors	5	7	6	7
Shortage of space	26	24	9	8

Note: * The question asked took a different form in 1991 from that in 2001. In 1991 respondents were asked if they had a big or a small problem. The figures here are those answering a big problem. In 2001, they were just asked if they had a problem.

According to the 2001 BHPS, older low-income homeowners who were living alone were twice as likely as other low-income homeowners to report problems with damp, but otherwise, there were few differences between different types of low-income homeowner households.

The broad conclusion, taking all three sources together suggests that low-income homeowners' homes are in worse condition than the homes of higher-income homeowners, and that the problem is worse among low-income homeowners of working age than it is among those over 60.

7.8 Former social housing

One in five low-income homeowners in 2002/03 were living in homes that had previously been owned by a council or housing association. The same was true of 13 per cent of higher-income homeowners. However, this does not necessarily mean that they actually purchased the home from the council or housing association. Only 17 per cent of low-income homeowners bought their former council or housing association property directly from the former landlord. Altogether, according to the SEH 2002/03, 30 per cent of current owners of former council and housing association property had low incomes. This is slightly higher than the 25 per cent of all homeowners who had low incomes (Table A.4). But, this does not mean that they had low incomes when they bought the property, nor that they were the original purchasers.

7.9 Trading down

A quarter of low-income homeowners moved to their current home because they wanted somewhere smaller or cheaper, or because they could not afford the rent or mortgage on their previous property. Among higher-income homeowners and tenants around eight per cent had traded down (SEH 2002/03).

7.10 The neighbourhood

In terms of their views of their neighbourhood, low-income homeowners in 2002/03 were fairly typical of the whole population, and were much more satisfied with the area they lived in than low-income tenants were. This is shown in Table 7.10 which is based on the SEH 2002/03. Only one in ten were dissatisfied with the area they lived in, compared with 16 per cent of low-income tenants and nine per cent of all households. Almost half (49 per cent) of all households were very satisfied with their area, and the proportion among low-income homeowners was very similar (47 per cent). By contrast, only 40 per cent of low-income tenants were very satisfied. The proportion of low-income homeowners and tenants who were fairly satisfied was almost identical to the figure for all households (37 per cent).

Table 7.10 Satisfaction with area

	<i>per cent</i>		
Satisfaction with area	Low- income homeowners n=1,843	Low-income tenants n=2,601	All households n=19,198
Very satisfied	47	40	49
Fairly satisfied	37	38	37
Neither satisfied nor dissatisfied	5	6	5
Slightly dissatisfied	7	9	6
Very dissatisfied	4	8	3

Source: Survey of English Housing 2002/03.

7.11 Consumption patterns

Low-income homeowners had consumption patterns which differed markedly from those of low-income tenants according to the EFS for 2001/02. These are shown in Table 7.11. One obvious source of difference was their low expenditure on housing (£39 a week compared with low-income tenants' £73 a week) This reflects the fact that a high proportion of low-income homeowners owned their homes outright so that their housing costs did not include any mortgage repayments. Low-income homeowners spent close to average amounts on fuel, power and light (£12 a week), while low income tenants spent around 25 per cent less.

In terms of expenditure on recreation (£31 a week) and food (£46 a week), low income owners, not surprisingly, spent less than the average for all households (£54 and £63 respectively) but they spent more than low-income tenants (£21 and £40) and only slightly less than homeowners who are slightly better off than they are (£38 and £53) (EFS 2001/02).

Table 7.11 Consumption patterns of low-income homeowners

Item	Low income owners n=827	Low income tenants n=1,213	All households n=7,473	Marginally better-off owners n=159
Expenditure categories	£ per week	£ per week	£ per week	£ per week
Fuel, light and power	12	9	12	12
Recreation	31	21	54	38
Housing	39	73	59	42
Food	46	40	63	53

Source: Expenditure and Food Survey 2001/02.

More striking are the differences in the ownership of durables which are shown in Table 7.12, also drawn from the EFS 2001/02. In the case of every item in the table, low-income tenants were less likely than low-income homeowners to have them. Two-thirds of low-income homeowner households owned, or had the use of, a car in 2001/02. The overall average for all households was 74 per cent, while the figure for low-income tenants was only 30 per cent. Ownership of washing machines among low-income homeowner households was virtually the same as the national average at just over 93 per cent, while the figure for low-income tenants was 83 per cent. Similarly, the ownership of satellite television receivers by low-income homeowners (11 per cent) was similar to that for all households (12 per cent), but below that of low-income tenants (seven per cent). Low-income homeowner household ownership rates for home computers (27 per cent), internet access (20 per cent) and dishwashers (17 per cent) were below the average for all households, (41 per cent, 39 per cent and 28 per cent respectively), but above the rates for low-income tenants (21 per cent, 13 per cent and four per cent respectively).

Comparing the durable ownership rates of low-income homeowners with the rates of homeowners whose incomes are up to 20 per cent higher ('marginally better-off owners' in Table 7.12), shows a very similar pattern. Those who are slightly better off are more likely to own a car (72 per cent compared with 66 per cent), a home computer (31 per cent against 27 per cent), and a dishwasher (20 per cent against 17 per cent), but were slightly less likely to have satellite television (nine per cent against 11 per cent) and had similar rates of internet access (20 per cent) and washing machine ownership (94 per cent).

Table 7.12 Ownership of durables

Item	<i>per cent</i>			
	Low-income owners n=827	Low-income tenants n=1,213	All households n=7,473	Marginally better-off owners n=159
Item owned				
Washing machine	93	83	94	95
Car	66	30	74	72
Satellite receiver	11	7	12	9
Home computer	27	21	41	31
Dishwasher	17	4	28	20
Internet access at home	20	13	39	20

Source: Expenditure and Food Survey 2001/02.

However, average consumption patterns conceal differences and some hardship. For example, 13 per cent of low-income homeowner families with children in the FACS 2002, had some difficulty managing on their incomes. This was similar to the proportion of low-income tenants who had difficulty, and 2½ times the proportion of families who were not on a low income.

The 2002 FACS asked families about whether they could afford particular items. The answers are shown in Table 7.13. For most of the items in the list, low-income homeowners are half as likely as low-income tenants to say that they do not have an item because they cannot afford it. They are generally only slightly less likely to be able to afford particular items than homeowners with incomes just above the low-income cut-off.

The item that low-income homeowner families were most likely both to want to have and not to be able to afford, was a holiday. Nearly four out of ten (38 per cent of families) who would have liked to have had a holiday could not afford one. However, three quarters (74 per cent) of low-income tenant families would have liked a holiday but could not afford one. Nearly three out of ten (29 per cent) families whose incomes were up to 20 per cent above the low-income threshold were also in this position. The next most desired but unaffordable item for low-income homeowner families was a dishwasher. More than a third (35 per cent) would have liked to have one, but could not afford it. More than eight out of ten (82 per cent) low-income tenants who would have liked a dishwasher could not afford one and this was also true of 29 per cent of homeowners with marginally higher incomes.

A quarter (27 per cent) of low-income homeowner families who would have liked money for trips, could not afford it. They were more than twice as likely as slightly better-off families (11 per cent) to be in this position, but only half as likely as low-income tenant families, more than half of whom (53 per cent) would have liked money for trips but could not afford them.

Three out of ten (30 per cent) low-income homeowner families would have liked a night out once a month but could not afford it. This was a little higher than the proportion of slightly better off homeowner families (26 per cent), but again well above the proportion of low-income tenant families (43 per cent).

Around one in five low-income homeowner families would like but cannot afford good quality new clothes for their children, brand name foods for family meals once a day, a tumble drier and digital television. In all cases, the proportion of tenant families who would like but could not afford these items was markedly higher. Around one in seven low-income homeowner families would like to have but could not afford a home computer, friends and relatives for a meal and new clothes for adults. One in ten would like but could not afford a car or van (compared with 43 per cent of low-income tenant families). There was no other item where more than one in ten of those low-income homeowner families who wanted it could not afford to buy it. The number of items where more than one in ten families would like to have it but could not afford it was much larger.

7.12 Savings and wealth

Consistent with their ownership of durables, and their consumption patterns is the fact that many low-income homeowners have financial and other assets. According to the FRS 2002/03, half of all low-income homeowners had savings or other financial assets. There were differences by age. The proportion of low-income homeowners over fifty who had savings was generally higher (around 55 per cent) than it was in younger age groups (around 35 per cent of those under fifty). Households with children were rather less likely than adult-only households to have any savings.

However, this is not consistent with the information in the 2002 FACS, which found that two-thirds of low-income homeowner families had savings, and a third saved regularly. Their median level of savings was around £1,200. However, a minority of low-income homeowners had high levels of savings. One in ten had more than £15,000 and one per cent had more than £130,000.

7.13 Debt

The 2002 FACS asked families about whether or not they had debts. Around 21 per cent of low-income homeowner families had debts. This compares with six per cent of higher-income homeowners and more than half (53 per cent) of low-income tenants. The average amount owed by low-income homeowner families was £759. This compares with £747 for higher-income homeowners with debts and £715 for lower-income tenants.

Table 7.13 Affordability of consumer items: families with dependent children

Item	Low-income homeowners				Low-income tenants				Marginally higher income homeowners			
	We have this	Like, but cannot afford	Do not want/need	Cannot afford as % of those who would like	We have this	Like, but cannot afford	Do not want/need	Cannot afford as % of those who would like	We have this	Like, but cannot afford	Do not want/need	Cannot afford as % of those who would like
A one-week holiday away from home, not staying with relative	57	35	8	38	24	70	6	74	68	28	4	29
Money for trips, holidays or outings	71	26	3	27	45	52	3	53	87	11	1	11
A night out once a month	54	24	22	30	43	39	18	47	54	19	26	26
A dishwasher	37	20	43	35	7	35	58	82	42	14	43	25
Good quality new brand name clothes or shoes for children	71	18	11	20	50	40	11	44	75	14	11	16
Good quality brand name food for family meals on most days	74	16	10	18	53	33	14	38	80	10	10	11
A tumble drier	69	16	15	19	57	26	17	31	71	14	15	16
A home computer (not Gameboy, Nintendo, Playstation)	76	15	8	17	43	38	18	47	75	15	10	16

Continued

Table 7.13 Continued

Item	Low-income homeowners				Low-income tenants				Marginally higher income homeowners			
	We have this	Like, but cannot afford	Do not want/need	Cannot afford as % of those who would like	We have this	Like, but cannot afford	Do not want/need	Cannot afford as % of those who would like	We have this	Like, but cannot afford	Do not want/need	Cannot afford as % of those who would like
Cable, satellite, or digital TV	62	15	24	19	46	32	23	41	61	11	28	16
Have friends or relatives round	72	12	16	15	56	25	19	31	76	8	16	10
Two pairs of all-weather shoes for each adult	86	11	2	12	69	28	3	28	90	7	3	8
New, not second hand clothes	85	11	4	12	65	32	3	33	87	9	5	9
A car/van	85	9	5	10	38	30	33	44	91	5	4	6
Two pairs of all-weather shoes for each child	88	8	4	8	81	15	3	16	92	5	3	6
Toys and sports gear for the children	88	8	4	8	82	14	4	15	92	4	4	4
A celebration with presents, for friends and family at special occasions	90	8	2	8	79	18	3	18	95	3	1	4

Continued

Table 7.13 Continued

Item	Low-income homeowners				Low-income tenants				Marginally higher income homeowners			
	We have this	Like, but cannot afford	Do not want/need	Cannot afford as % of those who would like	We have this	Like, but cannot afford	Do not want/need	Cannot afford as % of those who would like	We have this	Like, but cannot afford	Do not want/need	Cannot afford as % of those who would like
A separate deep freeze	76	7	17	8	67	12	21	15	85	4	11	4
A roast meat joint (or something similar) at least once a week	78	6	16	7	73	13	14	15	80	3	16	4
A best outfit for the children	80	6	14	7	70	17	12	20	85	2	12	3
A weatherproof coat for each adult	92	5	3	6	78	19	3	20	95	3	2	3
Meat or fish every other day	87	5	8	6	77	12	10	14	86	3	12	3
Fresh vegetables on most days	83	5	11	6	74	12	14	14	86	4	10	4
Cakes and biscuits on most day	78	5	17	6	69	12	19	15	80	4	15	5
Fresh fruit on most days	90	5	5	5	76	12	13	13	90	2	8	2
A music system (tape or CD)	94	5	1	5	92	6	2	6	97	1	2	1
Central heating	94	5	1	5	91	7	2	7	94	3	3	3
A video recorder	95	3	2	3	91	8	1	8	96	2	3	2

Continued

Table 7.13 Continued

Item	Low-income homeowners				Low-income tenants				Marginally higher income homeowners			
	We have this	Like, but cannot afford	Do not want/need	Cannot afford as % of those who would like	We have this	Like, but cannot afford	Do not want/need	Cannot afford as % of those who would like	We have this	Like, but cannot afford	Do not want/need	Cannot afford as % of those who would like
A microwave oven	94	2	4	3	90	5	5	6	94	2	4	2
A weatherproof coat for each child	96	2	1	2	93	7	1	7	97	2	1	2
A cooked main meal every day	94	2	4	2	92	4	4	4	97	0	2	1
A washing machine	99	1	0	1	96	3	1	3	99	1	0	1
A refrigerator	100	0	0	0	99	1	0	1	99	0	1	0
A colour TV set	100	0	0	0	99	1	0	1	100	0	0	0
A telephone (including mobile)?	99	0	1	0	92	6	2	6	99	1	0	0

Source: Families and Children Study 2002.

8 Movement into and out of low-income home ownership

One of the important reasons for undertaking this research was to investigate how households come to be low-income homeowners, in particular whether they bought their homes while on a low income, or whether they already owned their homes and then experienced a fall in income. The second important question is whether once people have become low-income homeowners, they remain in that state, or whether they either experience an increase in income or move into rented accommodation.

The purpose of this part of the study is to establish the extent of movement and to assess whether there are sufficient cases in the data sources available to undertake more complex analysis of the dynamics of the transitions into and out of low-income home ownership. If feasible, this would be undertaken as a second stage.

There were two data sources available to us for this part of the study: the BHPS and the FACS.

The position with the BHPS is complicated in that although the initial sample was a sample of households, each successive wave tracks the individuals who were originally members of those households, and the individuals who join those households and their spin-offs (for example, if children leave home and set up a new household with a partner). Strictly speaking, tracking movements in low-income home ownership status from wave to wave should also take account of changes in the composition of the household. As this requires quite complex programming, we have not done this for this exploratory part of the study, but would do so as part of any second stage which analyses the transitions in more depth.

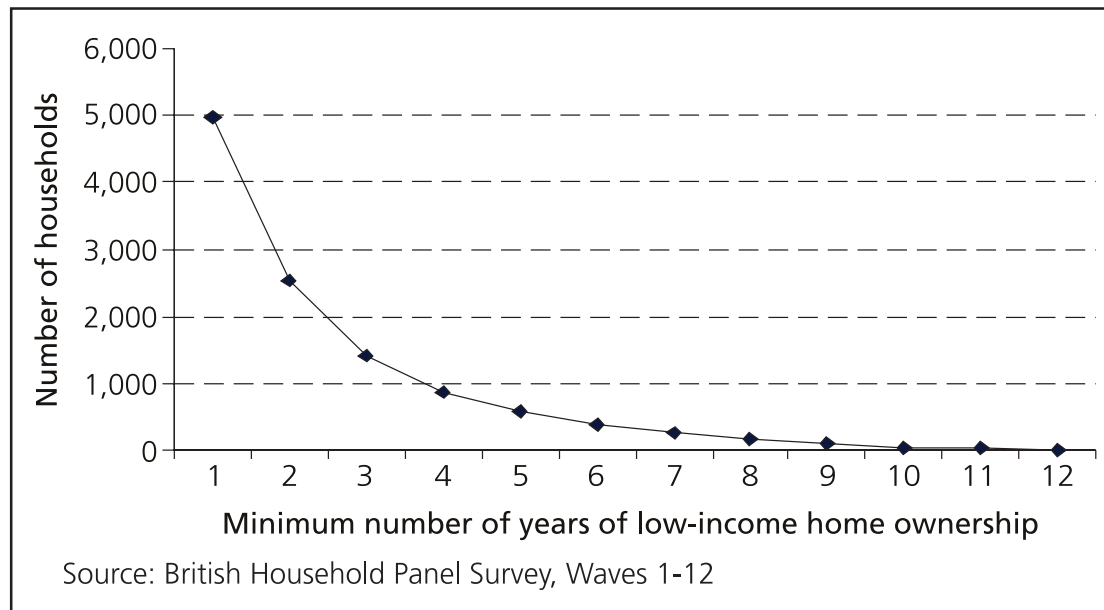
What we have essentially done is compare, from one wave to the next, the households containing particular individuals while dropping all duplicate households, while recognising that this does not strictly amount to comparing households from

year to year. The comparisons we report are for households (or strictly the households containing particular individuals) which appear in two successive waves. Thus, if a household is a low-income homeowner in one wave but does not appear in the next wave, it is not included. We have no particular reason to believe that low-income homeowner households are more likely than other households to drop out, or to miss a particular wave, but this is one of the issues we would need to investigate if the project proceeds to stage two.

With the FACS, we have compared the position of families in 1999 with the same families in 2002. The 1999 FACS was a sample of low-income families only, so that comparing the position in 1999 with that in 2002, will exclude the experiences of the wider range of families who were included in the most recent (2001 and 2002) sweeps of the survey. This means that we have not adequately captured higher-income families who have experienced a drop in income. But it also means we have a relatively large sample of families who started out as low-income homeowners in 1999. These families will change in composition (new children may be born, older children leave home, parents split up) but the central grouping remains the children and one or both of their parents. The purpose of the comparison is to get an estimate of the scale, over time, of movements into and out of low-income home ownership. If we proceed to the second stage of this project, we would expect to track the movements between each wave as well as the comparison between Wave 1 (1999) and Wave 4 (2002) which we have done here.

8.1 Stability of low-income home ownership

In many ways, low-income home ownership is a surprisingly common experience. Over a twelve-year period nearly a quarter of all households experience at least one spell of low-income home ownership according to the BHPS. As Figure 8.1 indicates, around half of those households experienced low-income home ownership in only a single year. Of those who experienced low-income home ownership in more than one year, nearly half experienced it in only two years. This general pattern continues, so that there are only eight households that have been low-income homeowners in all twelve waves of the BHPS.

Figure 8.1 Persistence of low-income home ownership

Interestingly, Jenkins *et al.* (2001), who used the BHPS Waves 1-9 to examine movements into and out of poverty more generally, found that during the 1990s (1991 to 1999) around a quarter of all individuals were in poverty in at least one year. Our preliminary analysis has used more waves. We might, therefore, expect a higher proportion to have experienced a year of low income, as our analysis includes three extra waves. But we also exclude tenants who have a higher probability of having a low income in the first place, which might offset that. If this project proceeds to a second stage, a key question to be addressed will be the extent to which the patterns of movement into and out of low income differ for tenants and homeowners. Jenkins *et al.* also found that around half of all households who were poor in one year were no longer poor the following year, which suggests that homeowners may have a similar exit pattern to tenants.

Table 8.1, based on the BHPS, shows that on average, just over half (54 per cent) of the households who are low-income homeowners in one year are also low-income homeowners the following year. This proportion is identical to that reported by Jenkins *et al.* (2001) for the whole population, not just homeowners. Thus, although there is a good deal of stability, nearly half the households who are low-income homeowners in one year have changed their status the following year.

8.2 Movements into low-income home ownership

The main movements into low-income home ownership are shown in Table 8.1 for all households based on the BHPS and in Table 8.2 for families with children based on the FACS.

Each year, around five per cent of higher-income households became low-income homeowners. Nineteen out of twenty of these households were already homeowners in the first year. Thus, around six per cent of homeowner households who were on higher-incomes became low-income homeowners the following year. The numbers of higher income tenant households that became low-income homeowner households was so small that it is unlikely to be feasible to do any detailed analysis of them. Similarly, the number of low-income tenants who became homeowners was also small, averaging two per cent of low-income tenants. Interestingly, however, both the number and the proportion have been markedly higher since 1998, so that it may be possible to combine this group across the waves since then and do more detailed analysis of their circumstances. But the key conclusion to be drawn from the data is that almost all those who became low-income homeowners were homeowners who experienced a fall in income. This group is large enough (at least 209 households in each year, and more than 300 in most years) for more detailed analysis to be feasible.

Table 8.1 Movements into low income home ownership: all household types

Year	% of all higher-income households who became low-income homeowners		% of higher-income homeowners who became low-income homeowners		% of higher-income tenants who became low-income homeowners		% of low-income homeowners who remained low-income homeowners		% of low-income tenants who became low-income homeowners	
		n		n		n		n		n
1991	•	•	•	•	•	•	•	•	•	•
1992	5	285	6	276	0.6	9	51	395	1.3	10
1993	4	213	5	209	0.3	4	49	320	0.8	6
1994	5	304	6	297	0.4	6	52	277	0.8	5
1995	5	276	6	261	1.0	15	55	316	0.7	5
1996	5	289	6	278	0.4	6	60	360	1.5	11
1997	5	299	6	281	1.3	18	52	358	1.4	11
1998	5	349	7	330	1.0	19	53	383	2.4	25
1999	6	398	8	378	1.0	18	61	454	2.9	30
2000	6	517	7	473	1.6	40	53	662	2.4	28
2001	6	453	7	429	1.3	22	54	541	4.5	37
2002	6	574	8	543	1.4	30	56	771	3.8	43
Average	5	360	6	341	0.9	17	54	440	2.0	19

Source: British Household Panel Survey.

For families with children the picture is slightly different, but this initial comparison is across four waves, that is it compares the position in 1999 with the position in 2002 and does not take account of intermediate movements. Just over one in ten families who had higher incomes in 1999 had become low-income homeowners in 2002. Two-thirds of these families were already homeowners, but a third had been tenants in 1999. In both cases, however, the numbers are small. It may be possible to do further analysis of transitions into low-income home ownership by combining data from each wave. We estimate that this might produce a total of around 300 such transitions. The small numbers compared with the BHPS reflect the fact that the 1999 FACS over sampled low-income families. In addition, the 2002 FACS both includes a wider range of families (for whom there is no 1999 data) and includes no income for self-employed families. The combination of these effects is that income data for both 1999 and 2002 is available for only a third of 2002 FACS families.

Around a quarter of the 1999 higher-income homeowner families who became low-income homeowner families in 2002 had changed from being couple families to being lone parent families. However, the numbers involved are very small (ten families) so it is difficult to draw firm conclusions.

Around a quarter of higher income homeowner families who became low-income homeowners had no adult in work in both 1999 and 2002. In only 14 per cent of cases was the move from higher-income home ownership into low-income home ownership associated with a move from working to non-working. Thus, job loss is not a central explanation for a move into low-income home ownership for families.

Among families there was more movement of low-income tenants into low-income home ownership. Around five per cent of families who were low-income tenants in 1999 had become low-income homeowners in 2002. However, again the numbers are too small to allow more detailed analysis. Moreover, the position is complicated by potential change in household composition. Thus, a tenant lone parent and her children who goes to live with a home-owning partner will change tenure as a result of the new partnership.

Table 8.2 Movements into low-income home ownership between 1999 and 2002: families with children

Year	% of all higher-income households who became low-income homeowners		% of higher-income homeowners who became low-income homeowners		% of higher-income tenants who became low-income homeowners		% of low-income homeowners who remained low-income homeowners		% of low-income tenants who became low-income homeowners	
		n		n		n		n		n
1999-2002	11	89	16	76	..	13	42	239	5	53

Note: 1999 FACS under-represents higher-income households.

Source: Families and Children Study 1999 and 2002.

We tried undertaking logit regression to see whether we could identify key life course changes that might be associated with a move into low-income home ownership by higher-income homeowner families. This constitutes only a very preliminary analysis of the factors associated with transitions, in that it looks at changes over a three year period and ignores intermediate transitions. We found that the explanatory power of the regression was exceptionally poor, and we could only account for less than two per cent of the variation between those who moved into low-income home ownership and those who did not. In fact, losing a partner was the only life event that was statistically significant, although losing a job was almost significant. However, the real problem is that most homeowner families who lost a partner, had a new baby or lost a job, nevertheless, did not become low-income homeowners. As a consequence, although both losing a partner and losing a job are associated with a higher probability of becoming a low-income homeowner, they do not predict it. Even among those who did become low-income homeowners, the maximum predicted probability of doing so was only 20 per cent, while the average was only eight per cent. Thus, even among people who experience a combination of disadvantageous circumstances, the likelihood of falling into low-income home ownership remains very small.

Logit regression results for transition into low-income home ownership (FACS)

Logit estimates		Number of obs	= 1587			
		LR	chi2(7)	= 13.16		
		Prob >	chi2	= 0.0684		
		Log likelihood	= -404.32865			
		Pseudo R2	= 0.016			
	Coef.	Std.Err	z	P> z	[95% Conf. Interval]	
newloinho						
gotajob	-0.16146	0.26923	-0.6	0.549	-0.68914	0.366225
lostajob	0.582816	0.320092	1.82	0.069	-0.04455	1.210185
gotapartner	0.486897	0.283562	1.72	0.086	-0.06887	1.042669
lostapartner	0.725897	0.327863	2.21	0.027	0.083298	1.368497
babyborn	0.110639	0.25305	0.44	0.662	-0.38533	0.606607
staydisabled	-0.38166	0.281631	-1.36	0.175	-0.93364	0.17033
becamedisa~d	-0.43627	0.373104	-1.17	0.242	-1.16754	0.295004
_cons	-2.61785	0.143044	-18.3	0	-2.89821	-2.33749

8.3 Movements out of low-income home ownership

Among families with children who were low-income homeowners in 1999, nearly six out of ten (58 per cent) had changed status by 2002 (Table 8.3). Nearly nine out of ten of those who changed status remained homeowners, but had increased their income. Around four per cent remained on low incomes but became tenants, and a similar proportion became tenants and increased their incomes. The numbers in these latter two groups are too small to allow further analysis, but the number who increased their incomes is sufficiently large to do so.

Table 8.3 Movements out of low-income home ownership between 1999 and 2002: families with children

Year	% of all low-income homeowner households who changed status		% of low-income homeowners who became high-income homeowners		% of low-income homeowners who became low-income tenants		% of low-income homeowners who became higher-income tenants		% of low-income tenants who became low-income homeowners	
		n		n		n		n		n
1999-2002	58	327	50	281	..	24	..	22		

Source: Families and Children Study 1999 and 2002

Change in employment status is not the main reason why families who were low-income homeowners in 1999 had become higher-income homeowners in 2002. Only around a quarter of these families had moved from not working into paid employment. The remainder had experienced an increase in household income while remaining in their existing employment status. This is consistent with the work of Jenkins *et al.* (2001) who found that transitions out of poverty were generally a consequence of increased income from earnings or benefits rather than change in employment status.

Using the FACS, we attempted to identify the factors that predicted transition out of low-income home ownership. Even here the ability to explain why some families moved out and others did not is very limited. There were essentially only two factors which were associated with higher or lower probability of exit: having another baby reduced the probability of exit, while getting a job increased it. Even then the predictive power remained poor.

Logit regression results for transition out of low-income home ownership (FACS)						
Logit estimates		Number of obs		= 428		
		LR chi2(7)		= 18.30		
		Prob > chi2		= 0.0107		
Log likelihood = -283.27633		Pseudo R2		= 0.0313		
	Coef.	Std.Err	z	P> z	[95% Conf . Interval]	
newloinho						
gotajob	0.618144	0.266426	2.32	0.02	0.095958	1.14033
lostajob	-0.45653	0.396345	-1.15	0.249	-1.23335	0.320294
gotapartner	0.858771	0.49964	1.72	0.086	-0.12051	1.838048
lostapartner	-0.23607	0.384472	-0.61	0.539	-0.98963	0.517476
babyborn	-0.79201	0.320233	-2.47	0.013	-1.41965	-0.16436
becamedisabled	-0.08461	0.383987	-0.22	0.826	-0.83721	0.667992
nolongerdisabled	-0.14758	0.327326	-0.45	0.652	-0.78913	0.493967
_cons	0.294059	0.130845	2.25	0.025	0.037609	0.55051

9 Synthetic datasets

Our original plan was to try attaching FRS equivalised household income to households in the SEH because we had understood that income in the SEH was only banded. However, in reality, detailed income is measured in the SEH, and the pattern of income is similar to that in the FRS (although the level is lower). As discussed already, therefore, rather than create a wholly synthetic dataset, we calculated equivalence scales for SEH households based on their composition, and we then used these to calculate equivalised household income based on each household's actual reported income.

Our second plan was to match families in the FACS with similar families in the SEH, to see if we could use that approach to attach more detailed housing information to the family information. However, it did not prove possible to generate sufficient matches on the basis of the characteristics of households in different surveys. When we tried to match families in the FACS with similar families in the SEH, we found that 80 per cent of those whose incomes were low in the FACS could be matched on the basis of their characteristics only with families in higher income groups in the SEH. When we tried the reverse process the same happened.

In fact these results are encouraging in one way, since our main findings suggest that low-income homeowners are relatively difficult to differentiate from those in higher income groups, and it is difficult to predict who will become a low-income homeowner. Thus, the fact that we cannot generate matches between different datasets reinforces the point that, as a group, they are very similar to homeowners with higher incomes, but appear to be the victims of an unusual set of circumstances.

10 Potential for stage two analysis of low-income dynamics

The key issue for the feasibility study has been to establish whether or not the sample sizes are sufficient to allow multivariate analysis of any of the longitudinal data.

10.1 British Household Panel Survey

Our overall conclusion is that the sample sizes and the number of transitions each year in the BHPS are sufficient to make it worth examining transitions into and out of low-income home ownership.

There is a very limited literature on low income (as opposed to earnings) persistence and transitions generally. Burgess and Propper (1998) review the literature at that time, and since then there has been work by Jenkins and colleagues at ISER (Jenkins *et al.*, 2001; Devicienti, 2000; Jarvis and Jenkins, 1998, 1997) using the BHPS.

Although, during this feasibility stage, we have included each BHPS household only once by removing duplicate serial numbers, we believe that the only feasible approach to modelling the dynamics of low income is to take the individual as the unit of analysis, but to attribute to each individual the income of their household. This is the approach taken by Burgess and Propper (1998) and by Jenkins *et al.* (2001).

The kind of events that influence transitions are:

- demographic (eg divorce, birth of a baby, death of a partner, setting up with a new partner, reaching retirement age);
- labour market (getting a job, increasing earnings, redundancy);
- accident, illness or disability.

These events can both happen to the individual themselves, or they can happen to other members of the household.

The starting point of an individual also has an influence on their transition probabilities. Someone who falls into low income has a higher probability of leaving it than someone who starts off on a low income (see Jarvis and Jenkins 1997, 1998). This also needs to be taken into account in the analysis.

But the probability that a particular event results in a transition is likely to depend on some other constant underlying characteristics of the individual. As our simple initial analysis of the FACS has shown, the loss of a job per se is unlikely to result in a higher-income homeowner becoming a low-income homeowner. The impact is mediated by the individual's savings, by the circumstances of other household members, by the individual's chances of getting another job (which is influenced both by their human capital and by where they live), and by whether or not they have insurance. But among those who do fall below the low-income threshold, their probability of leaving is also likely to be influenced by some of these underlying factors.

Strictly speaking, economists would generally argue that choices over partnership formation, having another baby or increasing working hours are not exogenous, and that there is an element of choice involved. However, this makes the analysis unduly complicated, and we believe that the purposes of informing policy are likely to be adequately served by using a probit approach to model transition probabilities in different circumstances, particularly since our initial analysis suggests that most such events do not trigger any changes in low-income status, and the majority of those who experience low-income home ownership are older people for whom the key events are retirement and death of a partner, which are not generally matters of choice.

10.2 Families and Children Study

If the Department decides that it wants to proceed with stage 2 then it makes sense to include analysis of the FACS as well as the BHPS. The main reason for this is that it enables a focus on working-age families with children, of whom the numbers in the BHPS who experience low-income home ownership is very small.

However, we have some reservations about this. The first is that the number of cases in the FACS who have experienced a transition into and out of low income is relatively small, and the analysis is complicated by the large number of cases for whom income is missing. However, this problem is greatest when comparing pre-2001 waves with the surveys taking place from 2001 onwards. It probably, therefore, makes sense to concentrate on the most recent three waves of data (2001, 2002 and 2003 which is now available). These waves include a larger proportion of higher-income families, so that transitions into low-income home ownership can be better explored.

The second is that, strictly speaking, the unit of analysis in the FACS is the family. However, in order for the data to be analytically tractable, given the potential for change in household composition, we will probably have to treat the unit of analysis either as the main respondent or as the adult with responsibility for the children. If the focus of the analysis is on child poverty, this is not a problem, but it does mean that the circumstances of partners who have left the family are not tracked (unlike the BHPS where they are followed up).

11 Conclusions

There are a small number of central conclusions to be drawn from our analysis:

The first, and perhaps most important, is that almost all low-income homeowners already owned their homes before they experienced a drop in income. They started out as higher-income homeowners. They did not buy their homes while they were on a low income.

Several other features flow from this. Low-income homeowners are far more likely than low-income tenants to own cars and other consumer durables. Their spending on discretionary items, particularly leisure is markedly higher than that of low-income tenants. Their circumstances reflect their previously higher levels of income as well as their current lower incomes.

One of the key transitions which results in low-income home ownership is the transition from work to retirement. Six out of ten low-income homeowner households are over 60. Seven out of ten low-income homeowners own their homes outright. While this partly reflects their age, younger low-income homeowners are also more likely to be outright owners than higher-income homeowners. Among the minority of low-income homeowners who have a mortgage, a majority is managing to pay it without undue difficulty, but a small minority of households have very high mortgage costs which can only be afforded by running down their savings. But for those who have mortgages, many find that the factor which triggered the fall into low income is not covered by insurance (and is not likely to be insurable). Factors such as the birth of a new baby, reduction in overtime, or divorce are not generally covered by mortgage protection insurance, and it is unlikely that insurers would ever offer cover, as they would run the risk of being exposed to voluntary actions.

The two groups in the low-income homeowner population who appear to be experiencing the greatest challenge are households headed by someone who is self-employed, which are exposed to the risk of income fluctuation, some of whom have very low incomes, and working-age households without children, who receive less support from tax credits and the benefit system than older people and families with children.

Low-income homeowners tend to live in smaller, less valuable homes than higher-income homeowners. The evidence does not suggest that low-income homeowners could improve their position markedly by selling their homes and moving to something smaller or cheaper.

Although low-income homeowner families' homes are in a worse state of repair on average than the homes of higher-income homeowners, the problem appears to be worse among working-age households than it is among older people. However, for most low-income homeowner households of working age the experience is transitory and associated with a temporary drop in income. In eight out of ten cases this drop is not insurable, so it is important that households have savings to fall back on. Half those who become low-income homeowners in one year have left low-income home ownership the following year. Although some of these households have become tenants, the vast majority have returned to higher-income home ownership.

Appendix Tables

Table A.1 Demographic and labour market characteristics of low-income homeowner households (1996/96)

	n	Lowest quintile measure (£160)		60% of median measure (£161)	
		% of group in with low income	% of low-income homeowners	% of group with low income	% of low-income homeowners
All households	26,435	20	.	21	.
All homeowners	17,326	15	.	16	.
Single adults aged under 60 in paid employment with dependent children	318	9	1	9	1
Single adults aged under 60 not in paid employment with dependent children	186	54	4	54	4
Couples aged under 60 with at least one partner in paid employment with dependent children	4,134	6	10	6	10
Couples aged under 60 neither in paid employment with dependent children	162	74	5	75	5
Single adults aged 60-74	1,182	30	14	32	14
Couples aged 60-74	2,106	21	17	22	18
Single adults aged 75+	1,003	47	19	49	19
Couples aged 75+	667	38	10	39	10
Other single adults	1,791	11	8	12	8
Other couples	2,964	5	6	5	5
Three adult households	2,079	8	6	8	6
Total	16,592		100		100

Source: Family Resources Survey 1995/96.

Table A.2 Demographic and labour market characteristics of low-income tenant households (1995/96)

	n	Lowest quintile measure (£160)		60% of median measure (£161)	
		% of group in with low income	% of low-income homeowners	% of group with low income	% of low-income homeowners
All households	26,435	20	.	21	.
All tenants	9,109	29	.	30	.
Single adults aged under 60 in paid employment with dependent children	324	15	2	17	2
Single adults aged under 60 not in paid employment with dependent children	951	52	22	55	22
Couples aged under 60 with at least one partner in paid employment with dependent children	878	20	8	21	8
Couples aged under 60 neither in paid employment with dependent children	427	74	14	76	14
Single adults aged 60-74	597	14	4	17	4
Couples aged 60-74	356	30	5	31	5
Single adults aged 75+	1,087	18	9	20	9
Couples aged 75+	265	46	5	49	5
Other single adults	1,570	28	19	29	19
Other couples	668	17	5	18	5
Three adult households	694	26	8	26	8
Total	7,817		100		100

Source: Family Resources Survey 1995/96,

Table A.3 Demographic and labour market characteristics of low-income social tenant households (1995/96)

	n	Lowest quintile measure (£160)		60% of median measure (£161)	
		% of group in with low income	% of low-income homeowners	% of group with low income	% of low-income homeowners
All households	26,435	20	.	21	.
All social tenants	6,538	32		34	
Single adults aged under 60 in paid employment with dependent children	361	20	2	22	2
Single adults aged under 60 not in paid employment with dependent children	782	59	24	62	24
Couples aged under 60 with at least one partner in paid employment with dependent children	563	23	7	24	7
Couples aged under 60 neither in paid employment with dependent children	344	80	14	82	14
Single adults aged 60-74	919	15	7	18	8
Couples aged 60-74	158	35	8	36	8
Single adults aged 75+	917	15	7	17	8
Couples aged 75+	218	46	5	48	5
Other single adults	856	33	15	34	14
Other couples	317	26	4	27	4
Three adult households	479	27	7	28	7
Total	5,914		100		100

Source: Family Resources Survey 1995/96.

Table A.4 Demographic and labour market characteristics of low-income homeowner households (2002/03)

	n	Lowest quintile measure (£171)		60% of median measure (£216)	
		% of group in with low income	% of low-income homeowners	% of group with low income	% of low-income homeowners
All households	15,982	20	.	25	.
All homeowners	11,124	10	.	19	.
Single adults aged under 60 in paid employment with dependent children	301	14	4	24	3
Single adults aged under 60 not in paid employment with dependent children	65	61	3	73	2
Couples aged under 60 with at least one partner in paid employment with dependent children	2,733	4	10	9	11
Couples aged under 60 neither in paid employment with dependent children	35	..	2	..	1
Single adults aged 60-74	711	19.	12	42	15
Couples aged 60-74	1,362	16	19	29	19
Single adults aged 75+	623	30	16	55	17
Couples aged 75+	492	28	12	46	11
Other single adults	1,463	7	9	10	7
Other couples	2,482	4	9	7	8
Three adult households	855	7	5	13	5
Total	11,124		100		100

Source: Survey of English Housing 2002/03,

Table A.5 Demographic and labour market characteristics of all low-income tenant households (2002/03)

	n	Lowest quintile measure (£171)		60% of median measure (£216)	
		% of group in with low income	% of low-income homeowners	% of group with low income	% of low-income homeowners
All households	15,982	20	.	25	.
All tenants	4,858	41	.	30	.
Single adults aged under 60 in paid employment with dependent children	315	32	5	53	6
Single adults aged under 60 not in paid employment with dependent children	511	87	22	93	17
Couples aged under 60 with at least one partner in paid employment with dependent children	580	24	7	40	8
Couples aged under 60 neither in paid employment with dependent children	140	86	6	97	5
Single adults aged 60-74	448	46	10	74	12
Couples aged 60-74	277	37	5	60	6
Single adults aged 75+	544	47	13	74	15
Couples aged 75+	193	43	4	44	5
Other single adults	955	36	17	74	15
Other couples	664	21	7	28	7
Three adult households	231	29	3	40	3
Total	4,858		100		100

Source: Survey of English Housing 2002/03.

Table A.6 Demographic and labour market characteristics of low-income social tenant households (2002/03)

	n	Lowest quintile measure (£171)		60% of median measure (£216)	
		% of group in with low income	% of low-income homeowners	% of group with low income	% of low-income homeowners
All households	15,982	20	.	25	.
All social tenants	3,270	49	.	68	.
Single adults aged under 60 in paid employment with dependent children	239	35	5	58	6
Single adults aged under 60 not in paid employment with dependent children	415	88	23	94	18
Couples aged under 60 with at least one partner in paid employment with dependent children	369	30	7	51	8
Couples aged under 60 neither in paid employment with dependent children	111	86	6	97	5
Single adults aged 60-74	383	47	11	75	13
Couples aged 60-74	222	39	5	65	6
Single adults aged 75+	470	47	14	74	16
Couples aged 75+	166	43	4	76	6
Other single adults	494	49	15	60	13
Other couples	270	39	7	51	6
Three adult households	52	37	3	129	3
Total	3,270		100		100

Source: Survey of English Housing 2002/03.

**Table A.7 Demographic and labour market characteristics of low-income homeowner households (2002/03)
(after housing costs)**

	n	Lowest quintile measure (£193)		60% of median measure (£212)	
		% of group in with low income	% of low-income homeowners	% of group with low income	% of low-income homeowners
All households	28,687	20	.	20	.
All homeowners	19,551	11	.	14	.
Single adults aged under 60 in paid employment with dependent children	526	10	4	13	3
Single adults aged under 60 not in paid employment with dependent children	98	64	4	69	3
Couples aged under 60 with at least one partner in paid employment with dependent children	4,250	5	12	7	12
Couples aged under 60 neither in paid employment with dependent children	140	59	4	62	3
Single adults aged 60-74	1,282	13	8	21	10
Couples aged 60-74	2,449	15	19	20	20
Single adults aged 75+	1,130	21	12	32	14
Couples aged 75+	850	23	10	30	10
Other single adults	2,010	11	12	12	10
Other couples	3,538	5	9	6	8
Three adult households	1,377	5	4	6	7
Total	17,650		100		100

Source: Family Resources Survey 2002/03.

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